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**Farm Credit Administration  
Fiscal Year 2008 Budget (Proposed)  
and Performance Budget**

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

ACA	Agricultural Credit Association
Assistance Corporation	Financial Assistance Corporation
B&I	Business & Industry
BPD	Bureau of the Public Debt
CAMELS	capital, asset quality, management, earnings, liquidity, and sensitivity
CCS	competitive consulting service
DOI	Department of the Interior
Farm Credit Act, or Act	Farm Credit Act of 1971, as amended
Farmer Mac	Federal Agricultural Mortgage Corporation
FBRA	Federal Bank Regulatory Agency
FCA	Farm Credit Administration
FCS	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FIRS	Financial Institution Rating System
FLCA	Federal Land Credit Association
FTE	full-time equivalent
Funding Corporation	Federal Farm Credit Banks Funding Corporation
GSE	Government-sponsored enterprise
HCP	Human Capital Plan
HRK	Harper, Rains, Knight & Company, PA
IDP	individual development plan
IRMP	Information Resources Management Plan
MRI	mission-related investment
NBC	National Business Center
NCB	National Cooperative Bank
OSMO	Office of Secondary Market Oversight
PCA	Production Credit Association
RBC	risk-based capital
SBA	Small Business Administration
SS	sole source
USDA	U.S. Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

## INTRODUCTION

The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. It is responsible for the regulation and examination of the banks, associations, and related entities that collectively constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation<sup>1</sup> (Farmer Mac). Initially created by an Executive order of the President in 1933, the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act or Act). FCA's mission is to promote a safe, sound, and dependable source of credit and related services for agriculture and rural America.

FCA promulgates regulations to implement the Act and examines System institutions for compliance with the Act, regulations, and safe and sound banking practices. If an institution is found to be in violation of the Act or regulations, or is operating in an unsafe or unsound manner, the Agency has several enforcement options at its disposal to bring about corrective action.

The Agency's policymaking is vested in a full-time, three-person board whose members are appointed by the President with the advice and consent of the Senate. The President also designates the Chairman of the Board, who serves as FCA's Chief Executive Officer and is responsible for the management of the Agency. FCA has been managed under this structure since enactment of the Farm Credit Amendments Act of 1985, which became effective December 23, 1985. The three members of the FCA Board also serve as the Board of the Farm Credit System Insurance Corporation (FCSIC), but its Chairman cannot be the FCA Chairman.

This document presents FCA's Proposed Budget for Fiscal Year 2008 (budget request, proposed budget) and a justification for the effective use of these monetary resources. It contains important information about FCA's various functions and program activities, along with an overview of the financial condition of the FCS and Farmer Mac, the entities regulated by the Agency. Also included is the Fiscal Year 2008 Performance Budget, which ties our proposed expenditures to the goals and objectives in FCA's strategic plan. This budget justification is organized into four sections as follows:

Part I contains FCA's budget request. It is accompanied by various budget trends that are monitored annually by the Agency.

Part II covers FCA and addresses the functions, programs, and services undertaken to fulfill the Agency's public mission. We also provide information on actions that have been taken by the Agency to improve internal operations.

Part III looks at the System's financial condition and performance.

Part IV contains FCA's FY 2008 Performance Budget that serves as a basis for measuring overall effectiveness.

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<sup>1</sup> Although Farmer Mac is chartered as a FCS institution, it is treated separately from the FCS in this document because of its unique mission.



## **PART I**

### **Fiscal Year 2008 Budget (Proposed)**



## FISCAL YEAR 2008 BUDGET OVERVIEW

The budget request, as represented in table 1, includes \$46,000,000 in assessments collected (current and prior years) from FCS institutions, including Farmer Mac. Additional sources of funding bring the total proposed FCA budget request to \$47,482,520. The budget request reflects a 3.81 percent increase from the previous year—the only increase over a 3-year period. This trend illustrates FCA's commitment to fulfilling its public mission in a cost-effective and efficient manner.

Table 1.

### FARM CREDIT ADMINISTRATION FY 2008 Budget (Proposed)

Description	Amount Proposed	Percentage of Total Budget
Full-time permanent	\$29,041,384	61.2%
Other than full-time permanent	437,830	0.9%
Other personnel compensation	231,917	0.5%
<b>TOTAL PERSONNEL COMPENSATION</b>	<b>\$29,711,131</b>	<b>62.6%</b>
Personnel benefits	9,081,759	19.1%
Benefits for former personnel	18,000	0.0%
<b>TOTAL COMPENSATION &amp; BENEFITS</b>	<b>\$38,810,890</b>	<b>81.7%</b>
Travel & transportation of persons	2,943,733	6.2%
Transportation of things	135,700	0.3%
Rent, communications, & utilities	529,025	1.1%
Printing & reproduction	181,851	0.4%
Other services, consulting, & other	3,568,712	7.5%
Supplies & materials	395,305	0.8%
Equipment	917,054	1.9%
Insurance claims & indemnities	250	0.0%
<b>TOTAL BUDGET</b>	<b>\$47,482,520</b>	<b>100.0%</b>
Other sources of funding	1,482,520	---
<b>CURRENT-YEAR ASSESSMENT</b>	<b>\$42,550,000</b>	<b>---</b>
Carryover funds	3,450,000	---
<b>ASSESSMENTS COLLECTED FROM THE FCS AND FARMER MAC</b>	<b>\$46,000,000</b>	<b>---</b>

Note: The \$47,482,520 budget request includes \$29,711,131, or 62.6 percent, for total personnel compensation and \$38,810,890, or 81.7 percent, for total compensation and benefits. Obligations for administrative expenses in FY 2008 are not to exceed \$46,000,000 from assessments included in the proposed FY 2008 Agency budget request of \$47,482,520. Other sources of funding, such as reimbursements and interest income, are not subject to the limitation. The FY 2008 proposed budget reflects a 3.81 percent increase from the previous fiscal year.

## Background

Research on the FCS consistently suggests that System institutions will continue to transition in the coming years to meet the demands of a progressively multifaceted and complex marketplace for agriculture and rural America. As FCS institutional operations become increasingly complex, mergers will likely continue, perhaps reducing the number of System institutions by as much as a third over the next several years. At the same time, the Agency expects the System's asset base to continue to grow at a moderate-to-strong rate, thereby expanding average institution size, which is already more than \$1 billion in total assets.

The budget request provides for sharing of resources by Agency offices. This strategy has enabled FCA to more effectively leverage and build on its most valuable investment, its people. Through the budget request, the Agency will continue to implement initiatives designed to streamline and improve operations, and to strategically develop and enhance staff expertise so that FCA is well positioned to meet all future challenges and opportunities. The budget request also supports the Agency's Human Capital Plan (HCP) and Information Resources Management Plan (IRMP), which together constitute approximately 85 percent of the total budget.

Finally, the FY 2007 (Revised) and FY 2008 (Proposed) budgets support an initiative to build and maintain an Agency reserve from accumulated interest earned on invested Agency funds. To ensure that the Agency can carry out its statutory responsibilities under various operating scenarios, the Agency needs a prudent and targeted reserve. The reserve will ensure that the Agency can effectively and efficiently respond to unanticipated material one-time policy or safety and soundness issues arising within the System. The reserve strategy will permit FCA to respond to these issues without increasing assessments at a time when they may be too costly for System institutions.

## FCA Program Areas

The Agency has two primary programs: (1) Policy and Regulation and (2) Safety and Soundness. All FCA office activities support these programs either directly or indirectly.

### *The Policy and Regulation Program*

FCA has allocated \$11.4 million for the Policy and Regulation program. This portion of the budget request provides the resources necessary to design policy solutions that will effectively address both the safety and soundness of the FCS and mandated mission objectives through regulations and other means that implement applicable statutes. To achieve these results, the Agency has budgeted for programs and strategies that will accomplish the following:

- Support Agency work on policy research, analyses of emerging economic and financial risks facing the System, and analyses of policy alternatives that will help the FCA Board make informed policy and regulatory decisions.

- Provide training and communications to Agency employees and System institutions on the new policies and rules adopted by the FCA Board to ensure clear communication and understanding of purpose and intent.

In addition, the budget request provides for ongoing Agency activities in the policy area, such as evaluating funding requests and other regulatory prior approval submissions; managing merger and institution-chartering activities; conducting research; processing information obtained from System institutions; communicating Agency positions on emerging issues; and supporting the administration of these activities.

### *The Safety and Soundness Program*

FCA has allocated \$32.1 million for the Safety and Soundness program. This portion of the budget request will maintain oversight programs to verify that FCS institutions are operating in a safe and sound manner and in compliance with applicable laws and regulations. The program includes monies targeted for investments in human capital, new examination policies, and initiatives that will enable the Agency's risk-based examination function to move toward a national examination approach.

### **Sources of FCA Revenue and Funding, FYs 2004–2008**

FCA maintains a revolving fund that is primarily capitalized through assessments on System institutions, including Farmer Mac and service corporations. In addition, FCA provides reimbursable services to other Federal agencies and earns interest from investments with the U.S. Department of the Treasury (U.S. Treasury). Most of the Agency's reimbursable work is performed for FCSIC, the U.S. Department of Agriculture (USDA), the Small Business Administration (SBA), and the National Cooperative Bank (NCB).

Table 2 shows actual and projected sources of revenue and funding for FYs 2004–2008.

Table 2.

**Sources of FCA Revenue and Funding, FYs 2004–2008**

Source	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Revised Budget	FY 2008 Proposed Budget
<b>ASSESSMENTS</b>					
<b>CURRENT YEAR</b>					
Banks, Associations, and Related Entities	\$36,875,000	\$37,096,000	\$38,264,599	\$39,300,000	\$40,350,000
Federal Agricultural Mortgage Corporation	2,000,000	2,304,000	2,350,422	2,200,000	2,200,000
<b>PRIOR YEAR</b>					
Carryover Funds <sup>1</sup>	2,500,000	2,937,000	3,750,000	2,750,000	3,450,000
Assessments Available for Obligation	\$41,375,000	\$42,337,000	\$44,365,021	\$44,250,000 <sup>2</sup>	\$46,000,000 <sup>3</sup>
<b>REIMBURSEMENTS<sup>4</sup></b>					
National Cooperative Bank	142,000	169,000	111,262	112,765	112,765
Small Business Administration	703,000	746,000	713,593	624,486	596,413
Farm Credit System Insurance Corporation	99,000	112,000	127,574	103,304	103,348
U.S. Department of Agriculture	305,000	515,000	295,067	502,136	524,729
U. S. Department of Agriculture (Armenia)	0	62,000	205,103	145,265	145,265
Other Miscellaneous Income	35,000	25,000	17,750	0	0
<b>OTHER</b>					
Interest Income	659,000	660,000	1,016,224	0	0
<b>TOTAL</b>	<b>\$43,318,000</b>	<b>\$44,626,000</b>	<b>\$46,851,594</b>	<b>\$45,737,956</b>	<b>\$47,482,520</b>

<sup>1</sup> Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation.

<sup>2</sup> FCA's obligation limitation for FY 2007 is \$44,250,000. The obligation limitation applies only to the portion of FCA's budget derived from assessments (current and prior years). Other sources of income are not subject to the limitation.

<sup>3</sup> FCA's proposed obligation limitation for FY 2008 is \$46,000,000.

<sup>4</sup> From a budget standpoint, reimbursements do not include indirect costs.

Note: The revolving fund is funded primarily through assessments on System institutions, including Farmer Mac and service corporations, along with money received for reimbursable services that FCA provides to other Federal agencies and the interest earned from investments with the U.S. Treasury. In conjunction with FCA's interest reserve strategy, no funds are budgeted from interest earned for FY 2007 and FY 2008.

## BUDGET TRENDS

Tables 3 and 4 provide information on FCA's budget trends. Spending levels have remained flat over the last 3 years: the proposed 3.81 percent increase for FY 2008 is needed for inflation adjustments and higher personnel costs.

Table 3. <b>FY 2008 Budget (Proposed)            Compared With the FY 2007 Budget (Revised)</b>			
Object Classification	FY 2007 Revised Budget	FY 2008 Proposed Budget	Increase (Decrease) From FY 2007 Budget
Full-time permanent	\$27,180,100	\$29,041,384	\$1,861,284
Other than full-time permanent	408,237	437,830	29,593
Other personnel compensation	228,784	231,917	3,133
<b>TOTAL PERSONNEL COMPENSATION</b>	<b>\$27,817,121</b>	<b>\$29,711,131</b>	<b>\$1,894,010</b>
Personnel benefits	8,343,361	9,081,759	738,398
Benefits for former personnel	28,600	18,000	(10,600)
<b>TOTAL COMPENSATION &amp; BENEFITS</b>	<b>\$36,189,082</b>	<b>\$38,810,890</b>	<b>\$2,621,808</b>
Travel & transportation of persons	2,727,610	2,943,733	216,123
Transportation of things	131,700	135,700	4,000
Rent, communications, & utilities	523,105	529,025	5,920
Printing & reproduction	183,936	181,851	(2,085)
Other services, consulting, & other	3,704,452	3,568,712	(135,740)
Supplies & materials	407,730	395,305	(12,425)
Equipment	1,870,091	917,054	(953,037)
Insurance claims & indemnities	250	250	0
<b>TOTAL BUDGET</b>	<b>\$45,737,956</b>	<b>\$47,482,520</b>	<b>\$1,744,564</b>
Other sources of funding	4,237,956	4,932,520	694,564
<b>CURRENT-YEAR ASSESSMENT</b>	<b>\$41,500,000</b>	<b>\$42,550,000</b>	<b>\$1,050,000</b>
Note: A comparison of FCA's FY 2008 proposed budget request with the FY 2007 Revised Budget reflects a 3.81 percent increase in overall spending.			

Table 4.

**FCA Obligations, FYs 2004–2008**

Object Classification	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Revised Budget	FY 2008 Proposed Budget
Full-time permanent (FTP)	\$25,823,000	\$25,475,000	\$24,971,813	\$27,180,100	\$29,041,384
Other than FTP	1,077,000	432,000	315,057	408,237	437,830
Other personnel compensation	162,000	160,000	601,071	228,784	231,917
<b>TOTAL PERSONNEL COMPENSATION</b>	<b>\$27,062,000</b>	<b>\$26,067,000</b>	<b>\$25,887,941</b>	<b>\$27,817,121</b>	<b>\$29,711,131</b>
Personnel benefits	6,698,000	6,967,000	6,966,238	8,343,361	9,081,759
Former personnel benefits	113,000	58,000	29,739	28,600	18,000
<b>TOTAL COMPENSATION and BENEFITS</b>	<b>\$33,873,000</b>	<b>\$33,092,000</b>	<b>\$32,883,918</b>	<b>\$36,189,082</b>	<b>\$38,810,890</b>
Travel & transportation of persons	1,901,000	1,745,000	2,183,176	2,727,610	2,943,733
Transportation of things	82,000	54,000	63,701	131,700	135,700
Rent, communications, & utilities	509,000	396,000	431,891	523,105	529,025
Printing & reproduction	124,000	134,000	130,842	183,936	181,851
Other services, consulting, & other	2,501,000	2,895,000	3,089,645	3,704,452	3,568,712
Supplies & materials	376,000	446,000	385,836	407,730	395,305
Equipment	415,000	265,000	183,987	1,870,091	917,054
Insurance claims & indemnities	0	0	0	250	250
<b>TOTAL OBLIGATIONS</b>	<b>\$39,781,000</b>	<b>\$39,027,000</b>	<b>\$39,352,996</b>	<b>\$45,737,956</b>	<b>\$47,482,520</b>

Note: Although the proposed budget for FY 2008 shows an increase, actual expenses for the last 3 fiscal years have held steady.

## BUDGET AND ASSESSMENT ISSUES

### Farm Credit System

FCA's operating costs are covered through direct assessments on System institutions. FY 2007 assessments on System institutions totaled \$41.5 million, an increase of \$1.0 million over FY 2006. The proposed assessment on System institutions in FY 2008 is \$42.5 million, reflecting a \$1.0 million increase over the FY 2007 assessment. Table 5 provides information on FCA's assessments and refunds for FYs 1999 through 2008.

Table 5. <b>FCS Assessments and Refunds, FYs 1999–2008</b>		
Fiscal Year	Assessment ( <i>in millions</i> )	Refund ( <i>in millions</i> )
1999	35.8	3.4
2000	35.8	2.6
2001	36.8	2.1
2002	36.7	0.0
2003	36.7	2.5
2004	38.4	2.1
2005	39.4	1.5
2006	40.5	0.0
2007	41.5	*
2008	42.5	*
* Refund amount not yet determined.		
Note: The above information shows that FCA's assessments have remained relatively steady over time and only recently have begun to increase at a modest rate.		

### Farmer Mac

Farmer Mac's assessment for FY 2007 is \$2.2 million. As required by regulation, the assessment will be reconciled and adjusted after year-end to reflect the actual amount expended. Actual costs for FY 2006 were \$2.35 million. The assessment for FY 2008 is expected to be similar to FY 2007. However, the anticipated assessment for FY 2008 is not available because preparation of the final Office of Secondary Market Oversight (OSMO) budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac for FY 2008 will not be done until September 2007.

FY 2003 and subsequent assessments for Farmer Mac are presented in table 6 and include costs associated with increased examination and oversight activities. OSMO added permanent staff in FY 2003 and FY 2004 to handle an expansion in off-site monitoring, oversight, and examination work, commensurate with Farmer Mac's significant growth from 1999 to 2002. Moreover, Farmer Mac's program activity increased sharply again in the first half of 2006. Table 6 provides information on the assessment trends for Farmer Mac.

Table 6.	
<b>Farmer Mac Assessments, FYs 2000–2008</b>	
Fiscal Year	Assessment ( <i>in millions</i> )
2000	\$0.45
2001	0.65
2002	0.89
2003	1.78
2004	2.00
2005	2.30
2006	2.35
2007	2.20
2008	*
* Farmer Mac's FY 2008 assessment will be determined in September 2007. It is expected to be about the same as the FY 2007 figure.	

## Farm Credit Administration

### FCS Borrower Costs

FCS borrowers incurred a net cost of 2.5 basis points, or approximately 2.5 cents for every \$100 of assets, to pay for Agency operations in FY 2006. These net cost figures represent a slight decrease in borrower costs from FY 2005, even though FCA's FY 2006 assessment increased \$1.1 million.

FCS borrower costs are based on the relationship between the System's total assessments and assets (not including Farmer Mac). The FCS held \$154.7 billion in total assets at September 30, 2006, up from \$135.4 billion a year earlier. Strong growth of System assets combined with controlled growth of the FCA budget has yielded a steady decline in regulatory costs to FCS borrowers. Table 7 shows the borrower cost trends since FY 1997.

Table 7.	
<b>FCA's Net Cost to System Borrowers, FYs 1997–2006</b>	
FY Ended September 30	Basis Points*
1997	4.6
1998	3.7
1999	3.7
2000	3.5
2001	3.4
2002	3.4
2003	2.9
2004	2.9
2005	2.6
2006	2.5
* The net cost figure is the annual assessment (not including Farmer Mac), adjusted for refunds at the beginning of the fiscal year and divided by total assets at the end of the fiscal year. Since FY 1997, the net cost to borrowers has decreased 2.1 basis points.	



*FCA Budget Carryover*

FCA ended FY 2006 with a budget carryover from previous years of approximately \$16.3 million, of which \$2.8 million has been transferred into the FY 2007 budget. The proposed budget for FY 2008 also includes \$3.5 million of carryover funds. The remaining carryover will be available for use in an emergency situation or in accordance with the Agency's reserve strategy.

Table 8 presents the cumulative amount of unobligated balances carried over at the end of each fiscal year.

Table 8. <b>FCA Budget Carryover, FYs 1997–2006</b>	
Fiscal Year	Carryover ( <i>in millions</i> )
1997	\$6.7
1998	7.1
1999	7.4
2000	8.1
2001	10.4
2002	13.9
2003	12.0
2004	10.1*
2005	11.7
2006	16.3
* FY 2005 audit restatement	

*Staffing*

This budget request reflects FCA's commitment to the achievement of its public mission through a budget that adheres to targeted spending levels. It will provide the resources needed to invest in Agency programs for regulation and policy development, risk-based examination and supervision, and the proactive management of systemic risks. While projected staffing levels for FYs 2007–2008 remain relatively stable, the composition of staff is changing as tenured, experienced people retire and are replaced with new employees. Because of continuing retirements and ongoing changes in the technical skills that FCA requires for certain jobs, the Agency will likely hire a number of new employees over the next 2 years. The small budget increase for FY 2008 reflects, in part, FCA's commitment to invest in targeted recruiting and training programs for new employees.

Table 9 provides the total full-time equivalent (FTE) levels by office for FYs 2004–2008, whereas table 10 breaks out FCA's budget obligations by office for the same time period.

Table 9.

**Total FTE Levels by Office, FYs 2004–2008**

Organizational Unit	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Revised Budget	FY 2008 Proposed Budget
Board	11.4	10.3	9.8	9.7	9.7
Chief Executive Officer (CEO)	1.0	4.9	3.5	3.5	3.5
Chief Operating Officer (COO) <sup>1</sup>	3.8	0	0	0	0
Congressional and Public Affairs <sup>2</sup>	0	8.6	5.0	7.0	7.0
Congressional and Legislative Affairs <sup>2</sup>	3.0	0.8	0	0	0
Communications and Public Affairs <sup>2</sup>	8.5	0	0	0	0
Ombudsman <sup>3</sup>	0.9	0	0	0	0
Examination	150.8	142.7	135.7	139.9	139.7
General Counsel	16.2	16.3	13.7	16.0	16.0
Management Services <sup>4</sup>	----	50.2	51.0	49.5	50.5
Chief Financial Officer <sup>4</sup>	12.4	0	0	0	0
Chief Administrative Officer <sup>4</sup>	14.7	0	0	0	0
Chief Information Officer <sup>4</sup>	26.3	0	0	0	0
Inspector General	5.2	4.8	3.9	4.81	4.81
Secondary Market Oversight	3.4	4.0	4.0	4.0	4.0
Regulatory Policy <sup>5</sup>	32.6	28.5	25.4	26.5	27.0
<b>Total</b>	<b>290.2</b>	<b>271.1</b>	<b>252.0</b>	<b>260.9</b>	<b>262.2</b>
<b>Change from Previous Year</b>	<b>9.3</b>	<b>-19.1</b>	<b>-19.1</b>	<b>8.9</b>	<b>1.3</b>
<b>Change from FY 2003</b>	<b>9.3</b>	<b>-9.8</b>	<b>-28.9</b>	<b>20.0</b>	<b>18.7</b>
<sup>1</sup> The COO's position was eliminated in FY 2004 and a Chief of Staff was appointed in the CEO's office. <sup>2</sup> The Office of Communications and Public Affairs and the Office of Congressional and Legislative Affairs were merged into the Office of Congressional and Public Affairs in FY 2005. <sup>3</sup> The Ombudsman position was combined with the Equal Employment Opportunity Officer in FY 2005 and relocated to the Office of the Chief Executive Officer. <sup>4</sup> The Offices of the Chief Financial Officer, the Chief Administrative Officer, and the Chief Information Officer were merged into the newly created Office of Management Services in FY 2005. <sup>5</sup> The Office of Regulatory Policy was previously named the Office of Policy and Analysis.					
Note: The FTE ceiling for FY 2006 was 269.2. The FTEs in the revised FY 2007 budget are slightly less than originally proposed for FY 2007, while the FTE number in the FY 2008 budget reflects a minimal increase.					

Table 10.

**FCA Obligations by Office, FYs 2004–2008**

Organizational Unit	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Revised Budget	FY 2008 Proposed Budget
Board	\$1,759,000	\$1,864,000	\$1,767,937	\$2,071,149	\$2,173,347
Chief Executive Officer	212,000	911,000	703,583	776,406	818,865
Chief Operating Officer <sup>1</sup>	598,000	1,000	0	0	0
Congressional and Public Affairs <sup>2</sup>	0	1,224,000	893,759	1,181,358	1,292,767
Congressional and Legislative Affairs <sup>2</sup>	392,000	99,000	0	0	0
Communications and Public Affairs <sup>2</sup>	935,000	0	0	0	0
Ombudsman <sup>3</sup>	161,000	0	0	0	0
Examination	18,178,000	17,816,000	19,165,857	20,758,191	22,057,096
General Counsel	2,462,000	2,628,000	2,527,069	3,135,286	3,323,823
Management Services <sup>4</sup>	0	9,119,000	8,831,897	11,424,245	11,029,903
Chief Financial Officer <sup>4</sup>	3,092,000	0	0	0	0
Chief Administrative Officer <sup>4</sup>	2,676,000	0	0	0	0
Chief Information Officer <sup>4</sup>	3,895,000	0	0	0	0
Inspector General	833,000	828,000	711,158	1,065,735	1,131,097
Secondary Market Oversight <sup>5</sup>	584,000	826,000	940,615	1,012,241	1,069,207
Regulatory Policy <sup>6</sup>	4,004,000	3,711,000	3,811,121	4,313,345	4,586,415
<b>Total Obligations</b>	<b>\$38,694,000</b>	<b>\$39,781,000</b>	<b>\$39,352,996</b>	<b>\$45,737,956</b>	<b>\$47,482,520</b>

<sup>1</sup>The Office of the Chief Operating Officer was eliminated in FY 2005 and a new position, Chief of Staff, was added to the Office of the Chief Executive Officer.

<sup>2</sup>The Office of Congressional and Legislative Affairs and the Office of Communications and Public Affairs were merged into the Office of Congressional and Public Affairs during FY 2005.

<sup>3</sup>The Office of the Ombudsman was merged with the Equal Employment Opportunity Officer in FY 2005.

<sup>4</sup>The Offices of the Chief Financial Officer, Chief Administrative Officer, and Chief Information Officer were merged into the Office of Management Services in FY 2005.

<sup>5</sup>Excludes costs of certain offices, such as Examination and General Counsel, that assists in the examination and supervisory activities of Farmer Mac.

<sup>6</sup>The Office of Regulatory Policy was previously named the Office of Policy and Analysis.

Note: To realize efficiencies, FCA offices share resources to accomplish various tasks and activities. These shared resources are not reflected in the individual office obligations.



## **PART II**

### **Farm Credit Administration**

## PROFILE OF THE FARM CREDIT ADMINISTRATION

FCA was created through an Executive order of President Franklin D. Roosevelt and derives its powers and authorities from the Farm Credit Act. As an independent Agency within the executive branch of the Federal Government, FCA is responsible for regulating and supervising the banks, associations, and related entities in the FCS, including Farmer Mac.

FCS is the oldest of the financial Government-sponsored enterprises (GSEs). The Farm Credit Act states that the overall objective for the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses. In short, it is responsible for providing a flexible flow of reasonably priced money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit to farmers, ranchers, producers, and harvesters of aquatic products, farm-related businesses, rural homeowners, agricultural and aquatic cooperatives, agribusinesses, and rural utilities. As of September 30, 2006, the FCS had \$115.9 billion in outstanding loans to agriculture and rural America; the System had more than a 30 percent share of the total market for agricultural credit.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is grounded in the Agricultural Credit Act of 1987. This Act established Farmer Mac in 1988 to create a secondary market for agricultural real estate and rural housing mortgage loans. It provides secondary market services through a network of agricultural lenders and intermediaries that includes commercial banks, FCS banks and associations, life insurance companies, and mortgage companies. As of September 30, 2006, the volume of loans, either purchased or guaranteed by Farmer Mac, totaled \$7.1 billion, which represented an estimated 11 percent<sup>1</sup> of all agricultural mortgage loans that are eligible for Farmer Mac's secondary market operation.

The FCA is also charged with statutory responsibility to examine the NCB<sup>2</sup>, a non-System entity operating as a federally chartered, privately owned banking corporation. FCA also provides contract examination services to FCSIC, USDA, and SBA.

Congressional oversight of the agricultural GSEs and FCA is provided by the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture. Agency operations are funded through assessments paid by System institutions; FCA does not receive a Federal appropriation.

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<sup>1</sup> Farmer Mac employs its own methodology to estimate market share, using USDA farm debt data. Approximately 40 percent of the total agricultural real estate lending market is eligible for Farmer Mac programs, based on Farmer Mac's current credit underwriting standards.

<sup>2</sup> The National Consumer Cooperative Bank Act of 1978, as amended, provides for FCA to examine and report on the condition of NCB. Since the passage of this law, FCA has conducted safety and soundness examinations of NCB and issued reports of examination to NCB's Board of Directors.

## **Mission Statement**

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. To fulfill its mission, the Agency conducts examinations of FCS institutions to monitor and oversee the safety and soundness of ongoing activities. FCA examinations also focus on whether the System is meeting its public mandate to serve all eligible borrowers, especially young, beginning, and small (YBS) farmers. In addition, the Agency undertakes the research, development, and adoption of rules, regulations, and other guidelines that govern how institutions conduct their business and interact with customers.

If System institutions violate laws or regulations, or if operations are determined to be unsafe or unsound, FCA may use its enforcement authority to ensure that the problem is corrected in a timely manner. FCA also ensures that the rights of borrowers are protected in several situations. These protections are especially important if the lender/borrower relationship deteriorates because of an adverse credit situation. Other statutory duties require the Agency to issue and amend FCS institution charters, report to Congress on the System's financial condition and performance, and approve the issuance of debt obligations.

## **FCA Board and Governing Philosophy**

FCA policy and its regulatory agenda are established by a full-time, three-person Board whose members are appointed by the President of the United States with the advice and consent of the Senate. They serve 6-year terms and may not be reappointed after serving a full term, or more than 3 years of a previous member's term. The President designates one member as Chairman of the Board, who serves until the end of his or her own term. The Chairman also serves as the Agency's Chief Executive Officer.

The governing philosophy of the FCA Board is grounded in the Farm Credit Act and the overarching goal of promoting the welfare of agriculture by furnishing sound, adequate, and constructive credit and closely related services to this key sector of the economy. The Board believes that the principles on which the System was founded are just as important today as they were in the early decades of the 20th century. A healthy and strong rural America is a vital component of American society. It benefits the entire Nation by providing the most dependable, safe, and least costly supply of food and fiber in the world.

The FCA Board recognizes that changes in the agricultural and financial marketplace create both risks and opportunities. As the Agency works to address these dynamic forces, the Board commits to working with all constituencies in a reasonable and responsible manner to find thoughtful solutions to these emerging issues. However, the FCA Board's primary regulatory duty remains constant—overseeing the safety and soundness of the FCS.

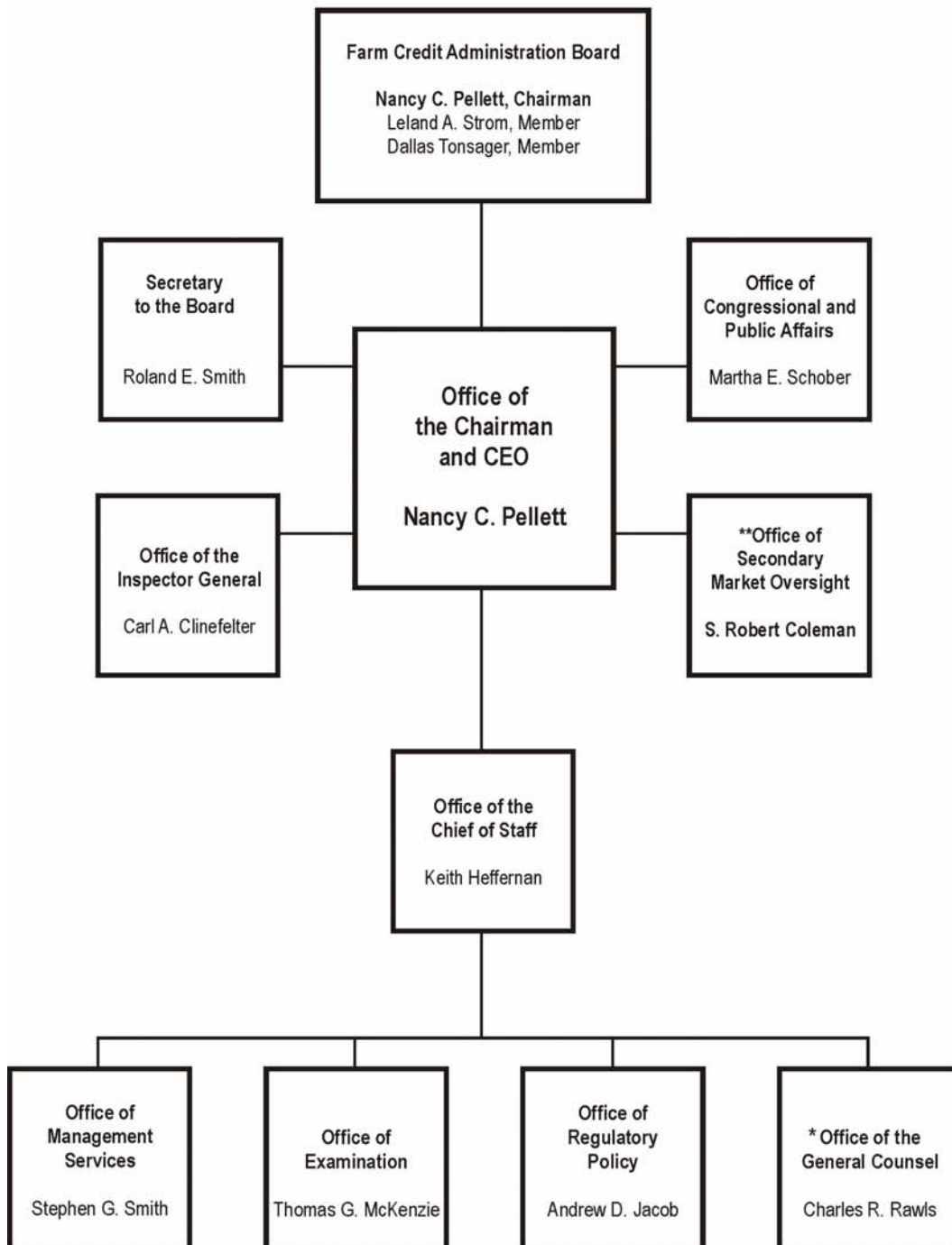
## **FCA Organizational Structure**

FCA maintains its headquarters in McLean, Virginia, with field offices in four other locations. Figure 1 presents the Agency's organizational structure and shows how the line and support offices provide strategic support to the FCA Board and ensure that the Agency's mission

and goals are performed effectively and efficiently. The budgetary information for each office is contained in table 10 on page 12.

Figure 1

## Farm Credit Administration Organizational Structure



\*Maintains a confidential advisory relationship with each of the Board members.

\*\* Reports to the Board for policy and to the CEO for administration.



## FCA INTERNAL OPERATIONS

FCA is firmly committed to developing and maintaining its most valuable asset, its employees. The Agency's human capital management program also strives to create an environment that achieves strategic alignment with FCA's mission. The program focuses on targeted workforce planning and deployment, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of the Agency's Human Capital Plan is based on guidance provided by the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office. The guidance, known as Human Capital Standards for Success, was developed to ensure that agencies engage in a comprehensive and strategic evaluation of their human capital needs.

### Human Capital Management

FCA's human capital strategies are linked to the goals and objectives of the Agency's strategic plan through various performance measures that are tied to desired outcomes. FCA continually analyzes its workforce trends, reviewing and/or updating best practices as needed. In addition, the Agency proactively identifies the changing environment of the FCS so that its human capital can adapt via hiring, training, and development—as well as attrition—to effectively address the needs of the System.

Workforce planning strategies are reviewed and updated annually as part of the HCP annual review. Rounded to the nearest whole number, the Agency's FTE staffing levels from FY 1999 through FY 2008 are depicted in table 11.

Table 11. <b>FTE Staffing Levels, FYs 1999–2008</b>										
FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
FTEs	295	287	277	270	281	290	271	252	261	262
Note: FTE staffing levels at FCA, after decreasing in the last two fiscal years, are projected to increase in FY 2007 but then hold steady in FY 2008.										

Table 12 provides information on the relationship between the number of Agency managers and supervisors to other personnel for FYs 1999–2008.

Table 12. <b>Ratio of Managers and Supervisors to Other Personnel, FYs 1999–2008</b>										
FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
FTEs	1:7	1:8	1:8	1:6	1:6	1:7	1:8	1:6	1:5	1:5
Note: This comparison shows that the ratio of managers and supervisors to other personnel typically varies within a narrow range. The estimates for FY 2007 and FY 2008 point to a slight change in this ratio.										

Each year, FCA studies its workforce to obtain information on critical staffing variables. Among the variables it analyzes are the age, grade, and gender of employees, along with 5-year projections for retirements and separations. This analysis is particularly important for projecting future staffing needs. At the end of 2007, approximately 18 percent of Agency personnel were eligible to retire; by the end of 2008, this number will increase to approximately 25 percent. However, over the past 3 years, the number of employees who have been employed 5 years or fewer has risen substantially and now constitute a sizable part of the Agency's workforce. Thus, the average tenure of employees will decrease as senior staff members retire. Table 13 provides information on retirement eligibility at FCA.

Table 13. <b>FCA Retirement Eligibility, FYs 2007–2012</b>						
Fiscal Year	2007	2008	2009	2010	2011	2012
Eligible Retirements	49	15	16	9	9	12
Note: Approximately one-fifth of FCA's 262 employees are eligible to retire in FY 2007. Furthermore, staffing projections show that 110 staff members, or approximately 45 percent, will be eligible to retire between FY 2007 and FY 2012.						

### *Workforce Training and Development*

The Agency is proactively working to address the challenges of its retirement projections to ensure that FCA maintains a high level of institutional knowledge, job skills, and analytical expertise in its workforce. In addition to effective succession planning and cross-training, it is systematically providing a variety of resources, programs, and tools for knowledge sharing across the organization.

### Workforce skills assessment

FCA's workforce strategies are based on identified current and future human capital needs, including size, skill sets, and deployment of the workforce. To accurately gauge human capital requirements, FCA conducts assessments at the Agency, office, and individual employee levels to determine future training needs. The results are used to develop, enhance, and/or redirect training and development programs.

The Agency has also taken steps to identify all competencies needed to carry out its mission and has incorporated this information into the HCP. Requisite training and development activities are tied to those competencies. In addition, FCA has established training programs to support the needs of core occupational groups and is using a variety of training methods to fulfill this goal (e.g., in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, e-learning, etc.). Each employee has a laptop computer with the technology infrastructure to support e-learning initiatives. In addition, as a matter of policy, courses are offered on the use of the Agency's computer systems for all employees.

Comprehensive HCPs developed at the office level and individual development plans (IDPs) are the primary means of managing and planning employee training and development activities. IDPs project short- and long-term goals over a 2-year period, serve as budget justifications for training resources, and are linked to the Agency's Performance Management System. Supervisors and employees collaborate on ongoing and proposed training and development goals during mid-year and annual performance reviews.

#### Staff development: knowledge management and best practices

FCA strategically invests in its workforce by providing access to education, training, and other developmental projects to build and maintain mission-critical competencies and to nurture a work environment that attracts and retains bright, creative, and enthusiastic people. Classroom-style training represents only one component of the Agency's strategy for staff development. Various techniques are used for succession planning and to close competency gaps in key areas within the organization. In addition, when a vacancy in a critical field is projected, orientation plans seek to have newly hired employees work closely with experienced employees to transfer critical knowledge. The transfer of knowledge is further enhanced through documented policies on training and developing employees.

FCA's electronic databases contain important information on knowledge management and best practices in the areas of training and development; supervisory development; the FCA Mentoring Program; the Pre-commission Training Program; the Information Technology Certification Program; and the Capital Markets Specialist Program. The Agency also uses its information technology to communicate and share knowledge with employees through the Policies and Procedures Manual database, the Training and Evaluations database, and other databases established for various internal operations.

#### *FCA Compensation Program*

The Federal Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires that Federal financial regulators strive to achieve comparability in all compensation and benefit programs. Specifically, section 1206 of FIRREA directs FCA and other Federal Bank Regulatory Agencies (FBRAs) to "seek to maintain comparability regarding compensation and benefits." These provisions enable FBRAs to attract and retain qualified staff. The Agency annually surveys the FBRAs, private sector, System banks, and General Schedule agencies and adjusts its employees' compensation and benefits accordingly.

FCA's compensation policy is designed to provide compensation at a level similar to the average market rate provided by other FBRAs, taking into account compensation and benefits provided under the General Schedule and private sector. FCA is achieving this objective based on a yearly reevaluation of its program relative to the compensation practices of the other Federal financial regulators.

#### Locality pay differential

Although FCA has a national salary range structure, it offers locality pay differentials to compensate employees for the higher costs of labor at certain duty stations, which is consistent with the practices of the other FBRAs and agencies on the General Schedule.

The pay differentials, shown in table 14, supplement base salary and may be revised in accordance with the annual review of current data and available funding.

Table 14.	
<b>FCA Locality Pay Rate, FY 2007</b>	
Location	Pay Adjustments (%)
Bloomington, Minnesota (Field Office)	8.8
Dallas, Texas (Field Office)	6.5
Denver, Colorado (Field Office)	10.5
McLean, Virginia (Headquarters and Field Office)	15.3
Sacramento, California (Field Office)	13.1
Note: Locality pay is added to base salary, is creditable for employee benefits, such as retirement and thrift savings calculations, and is based on variations in the competitive cost of labor found in the vicinity of duty stations.	

### Salary adjustments

FCA uses a fully integrated pay-for-performance program that adjusts employee salaries annually using a merit pay matrix (table 15) and provides for variable adjustments based on the employee's performance rating and salary range position. The salary range is divided into "quintiles," or fifths. The Agency reviews the matrix and makes annual adjustments based on a number of factors, including the salary program developments of the other Federal financial regulators, private sector compensation trends, available funding, and FCA's overall performance and accomplishments during the past fiscal year.

Table 15.						
<b>FCA 2007 Merit Matrix—Salary Positions</b>						
RATING	Q1	Q2	Q3	Q4	Q5	Exceeds Range Maximum
Outstanding	6.3%	6.0%	5.7%	5.2%	4.9%	4.0%
Excellent	4.2%	3.9%	3.6%	3.1%	2.8%	2.0%
Fully Successful	3.1 %	2.8%	2.5%	2.5%	2.0%	1.0%
Minimally Successful	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Unsatisfactory	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Note: The FCA's Pay-for-Performance Program uses a merit pay matrix to determine the variable adjustments for staff performance ratings and salary range positions. Salary ranges are further divided into quintiles, or fifths.						

Salary ranges for FCA employees

The Agency's current base salary ranges are provided in table 16.

Table 16.								
<b>FCA Salary Ranges for Calendar Year 2007</b>								
Pay Plan	Grade	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile	Range Maximum	Range Midpoint
VH	45	\$168,388– 185,227	\$185,228– 202,066	\$202,067– 218,904	\$218,905– 235,743	\$235,744– 252,582	\$252,582	\$210,485
VH	44	\$146,297– 160,926	\$160,927– 175,556	\$175,557– 190,186	\$190,187– 204,816	\$204,817– 219,445	\$219,445	\$182,871
VH	43	\$128,646– 141,511	\$141,512– 154,376	\$154,377– 167,240	\$167,241– 180,105	\$180,106– 192,970	\$192,970	\$160,808
VH	42	\$112,446– 123,690	\$123,691– 134,935	\$134,936– 146,179	\$146,180– 157,424	\$157,425– 168,668	\$168,668	\$140,557
VH	41	\$98,286– 108,114	\$108,115– 117,943	\$117,944– 127,771	\$127,772– 137,600	\$137,601– 147,428	\$147,428	\$122,857
VH	40	\$85,907– 94,498	\$94,499– 103,089	\$103,090– 111,679	\$111,680– 120,270	\$120,271– 128,861	\$128,861	107,384
VH	39	\$75,089– 82,598	\$82,599– 90,107	\$90,108– 97,615	\$97,616– 105,124	\$105,125– 112,633	\$112,633	\$93,861
VH	38	\$65,632– 72,195	\$72,196– 78,758	\$78,759– 85,322	\$85,323– 91,885	\$91,886– 98,448	\$98,448	\$82,040
VH	37	\$57,368– 63,105	\$63,106– 68,842	\$68,843– 74,578	\$74,579– 80,315	\$80,316– 86,052	\$86,052	\$71,710
VH	36	\$50,143– 55,158	\$55,159– 60,172	\$60,173– 65,186	\$65,187– 70,200	\$70,201– 75,215	\$75,215	\$62,679
VH	35	\$43,827– 48,210	\$48,211– 52,593	\$52,594– 56,975	\$56,976– 61,358	\$61,359– 65,741	\$65,741	\$54,784
VH	34	\$38,308– 42,139	\$42,140– 45,970	\$45,971– 49,800	\$49,801– 53,631	\$53,632– 57,462	\$57,462	\$47,885
VH	33	\$33,464– 36,832	\$36,833– 40,181	\$40,182– 43,529	\$43,530– 46,878	\$46,879– 50,226	\$50,226	\$41,855
VH	32	\$31,889– 35,078	\$35,079– 38,267	\$38,268– 41,455	\$41,456– 44,644	\$44,645– 47,833	\$47,833	\$39,861
VH	31	\$30,371– 33,408	\$33,409– 36,445	\$36,446– 39,483	\$39,484– 42,520	\$42,521– 45,557	\$45,557	\$37,964
VH	30	\$28,925– 31,817	\$31,818– 34,710	\$34,711– 37,602	\$37,603– 40,495	\$40,496– 43,387	\$43,387	\$36,156
Note: FCA's base salary ranges for calendar year 2007 reflect a 2.7 percent adjustment from 2006. The salary cap for 2007 is \$215,700.								

## External Contracting and Shared Services

### Outsourcing

Before FY 2006, FCA had outsourced the operation of its financial management system and travel management system (table 17, items 1 and 2, respectively) through a cross-servicing agreement with the Department of the Interior's (DOI's) National Business Center (NBC). However, FCA was required to replace its financial management system and began the replacement process in FY 2005. The Agency evaluated proposals for shared services from several Federal entities and determined that the Bureau of the Public Debt (BPD) offered the best value for shared services for accounting, procurement, and credit cards, as well as its financial and travel systems. FCA switched over from NBC to BPD on April 1, 2006.

In FY 2006, FCA incurred an outsourced activity cost for its payroll services (item 4), which are provided by USDA's National Finance Center.

The Agency had contracts in place for other services to be performed by outside vendors during FY 2006, which allowed the Agency to manage its employee benefits without additional personnel costs. These contracts include Employee Assistance Program services by ComPysch (item 5); Flexible Spending Account Plan services by Benefits Administrative Services (item 6); and relocation services by Corporate Relocation Services (item 7).

Table 17.			
<b>Outsourcing, FY 2006</b>			
<b>Item</b>	<b>Contract</b>	<b>Functions and/or Services</b>	<b>Cost</b>
1	National Business Center (DOI)	Financial management system	\$103,436
2	National Business Center (DOI)	Travel management system	\$73,531
3	Administrative Service Center (BPD)	Implementation of replacement financial management system, Travel Services, Accounting Services, Credit Card Services, and Procurement Services	\$560,179
4	National Finance Center (USDA)	Payroll services	\$35,000
5	ComPysch	Employee Assistance Program services	\$8,000
6	Benefits Administrative Services	Flexible Spending Account Plan	\$13,556
7	Corporate Relocation Services	Employee relocation services	\$15,372
Note: FCA functions outsourced during FY 2006 totaled \$809,074.			

### Sole Source and Competitive Consulting Service Contracts

Tables 18 and 19 provide a summary of the Agency's sole source (SS) and competitive consulting service (CCS) contracts for FY 2005 and FY 2006.

Table 18.

### Sole Source (SS) and Competitive Consulting Service (CCS) Contracts, FY 2005

Item	Contract	Purpose	Amount
1	Mitchell Graphics (CCS); 05-FCA-044	Course development and training on MapInfo Professional 7.8. Block of consulting time, for MapInfo Professional 7.8 software.	\$3,500
2	Dr. Robert M. Brown (SS); 05-FCA-048	Contract for consultant fees for instructor on the Level II Effective Writing Course held for examiners.	\$5,916
3	Lindholm & Associates (CCS); 05-FCA-049	Contract for consultants to provide workforce study.	\$136,740
4	Harper, Rains, Knight & Co. (CCS); 05-FCA-055	Contract to perform an audit of Fiscal Year 2004 Financial Audit Statement of the Farm Credit Administration and mandatory evaluation of the FCA's information security program and practices.	\$77,972
5	Carol S. Napolitano (SS); 05-FCA-057	Contract for consulting services in area of change management to participants in April 2005 for Office of Examination Planning meeting.	\$2,500
6	Stratavizion Consulting (SS); 05-FCA-059	Contract for speaking services for FCA-sponsored Board retreat in May 2005.	\$6,484
7	Rutter Associates (SS); 05-FCA-060	Contract for training services titled "Credit Portfolio Analytics" in McLean, VA, in July 2005.	\$16,300
8	Thomas Holland (SS); 05-FCA-062	Contract to provide the FCA Office of Secondary Market Oversight with services in examination and supervision of Farmer Mac.	\$50,000
9	Synergies (CCS); 05-FCA-063	Contract for consulting services to facilitate understanding in organization change and assist with successful strategies implementing recommendations to improve the efficiency and effectiveness of the Office of Examination.	\$76,000
10	Global Financial Markets Institute (CCS); 05-FCA-064	Contract to provide a 3-day seminar in Derivatives.	\$15,300
11	New Life Retirement Benefit Counseling (CCS); 05-FCA-068	Contract to provide training program on Pre-Retirement Planning.	\$28,550
12	Editorial Experts (CCS); 05-FCA-072	Contract to assist in the redesign of the FCA Web site.	\$10,730
13	Watson Wyatt (SS); 05-FCA-075	Contract to review, evaluate, and recalibrate the Agency's proprietary Job Evaluation Program.	\$100,000
14	Thomas Holland (SS); 05-FCA-085	Contract for Office of Regulatory Policy services to include drafting needed for amendments to Agency regulations that cover financial disclosure and reporting areas and internal controls of the Farm Credit System and such other services that pertain to drafting amendments to the Agency's financial disclosure and reporting regulations for FCS institutions.	\$21,560
15	Serena Software (SS); 05-FCA-088	Contract to provide consulting for installation of Serena Collage software on the FCA computer network.	\$24,000
16	Barry and Associates (SS); 02-FCA-C01-Mod. 5	Contract to provide FCA staff with insight on the fundamentals of the Farmer Mac RBC model and general information on other risk models used by the System.	\$51,000

Note: FCA sole source and competitive consulting service contracts totaled \$626,552 for FY 2005.

Table 19.

### Sole Source (SS) and Competitive Consulting Service (CCS) Contracts, FY 2006

Item	Contract	Purpose	Amount
1	Editorial Experts, Inc. (CCS); 06-FCA-0002	Contract for a writer-editor who is familiar with publications and other documents produced by the Office of Congressional and Public Affairs for the Farm Credit Administration.	\$39,910
2	Sana Reynolds (SS); 06-FCA-056	Contract to provide communication and presentation training to examiners	\$3,750
3	Sana Reynolds (SS); 06-FCA-00005	Contract to provide communication and presentation training to examiners.	\$5,900
4	Sana Reynolds (SS); 06-FCA-0042	Contract to provide communication and presentation training to examiners.	\$6,252
5	Harper, Rains, Knight & Co. (CCS); 06-FCA-050	Contract to perform an audit of FY 2005 Financial Audit Statement of FCA and mandatory evaluation of the Agency's information security program and practices. This exercises option year 3 of contract 03-FCA-073.	\$90,186
6	Blue Ridge Consultancy, LLC (SS); 06-FCA-059	Phase 1 for (1) a report on the situation and outlook of cooperative rural electric power lending sector; (2) a detailed guide to underwriting standards for loans to rural electric cooperatives . Phase 2 for (1) a review of loans made by such cooperatives that serve as collateral to certain mission-related investments of Farmer Mac; and (2) suggestions on how Farmer Mac might address findings from the collateral reviews or modify its operational policies and procedures.	\$30,000
7	Thomas Holland (SS); 06-FCA-0011	Contract to assist FCA in evaluating various functions at FCS institutions and related entities. The contractor will provide authoritative observations, analyses, conclusions, recommendations, and advice to FCA regarding the evaluation/review findings.	\$17,130
8	Thomas Holland (SS); 06-FCA-450-01	Contract to assist FCA in evaluating various functions at FCS institutions and related entities. The contractor will provide authoritative observations, analyses, conclusions, recommendations, and advice to FCA regarding the evaluation/review findings.	\$25,000
9	iFar (SS); 06-FCA-0022	Contract to provide FCA staff with insight on the fundamentals of the Farmer Mac RBC model and general information on other risk models used by the System. The contractor will prepare and present a training course in accordance with the course outline agreed to by FCA.	\$5,640
10	iFar (SS); 06-FCA-0045	Contract to provide FCA staff with insight on the fundamentals of the Farmer Mac RBC model and general information on other risk models used by the System. The contractor will prepare and present a training course in accordance with the course outline agreed to by FCA.	\$39,160
11	Personnel Decisions Research Institute, Inc. (SS); 06-FCA-0044	Contract for training and consulting services from Steven E. Lammlein from PDRI, regarding the Examiner Commission Test from September 24 to 27, 2006.	\$5,477
12	Robert Andros (SS); 06-FCA-037	Contract to review and analyze specific regulation areas as specified by FCA's Office of Regulatory Policy, and to provide services including serving as advisor on the final governance regulation and proposed assessment rule as specified.	\$36,000
13	Robert Andros (SS); 06-FCA-911-01	Contract to review and analyze specific regulation areas as specified by FCA's Office of Regulatory Policy, and to provide services, including serving as advisor on the final governance regulation and proposed assessment rule as specified.	\$18,000
14	iFar (SS); 02-FCA-C01-Mod. 6	Contract to provide FCA staff with insight on the fundamentals of the Farmer Mac RBC model and general information on other risk models used by the System.	\$97,400

Note: FCA sole source and competitive consulting service contracts totaled \$419,805 in FY 2006.



## Other Functions and Activities

### *Reception and Representation Expenditures*

FCA spent \$2,010 on reception and representation expenses in FY 2006.

### *Foreign Travel Expenditures*

FCA staff made several foreign trips in FY 2006, but the Agency had no direct expenditures associated with foreign travel. The trips involved a total of five staff members who traveled to various regions of Russia, Ukraine, and Armenia. Employees participated in programs that centered on facilitating economic rural development and agricultural lending in the above-mentioned countries, all of which were part of the former Soviet Union.

Of the five staff members, two were granted administrative leave for one-half of the time and took personal leave for the remainder to travel to their assignments. One of these employees traveled with the Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance organization to Russia on an assignment to monitor an examination of a cooperative. The other employee traveled with the U.S. Agency for International Development to Ukraine on an assignment to work with the Ukrainian Commercial Bank to develop loan programs and products to advance its rural and agricultural economies.

The remaining three staff members participated in USDA's Foreign Agricultural Service program in Armenia. The three employees provided training, advice, and other services to the Ministry of Agriculture of the Government of Armenia and to the Center for Agribusiness and Rural Development in Yerevan, Armenia, to establish an Armenian farm credit system. The Foreign Agricultural Service reimbursed the Agency for all salary and benefit costs associated with this program, and directly paid all travel costs to Armenia.

### *Litigation*

FCA was named as a defendant in the legal proceeding, *William D. Jones v. Merit Systems Protection Board and Farm Credit Administration*. The complaint was filed on February 24, 2005, in the U.S. District Court for the District of Nebraska, alleging that the Merit Systems Protection Board violated the Privacy Act, 5 U.S.C. § 552a, by failing to properly amend its records. On October 3, 2005, the Court dismissed the complaint with prejudice. On October 21, 2005, Mr. Jones filed an appeal with the U.S. Court of Appeals for the Eighth Circuit. The U.S. Attorney's Office in Omaha, Nebraska, is representing FCA on the appeal.

The only costs incurred by FCA as a result of this litigation were a portion of the salaries and benefits of the FCA employees who assisted in defending the Agency, which totaled approximately \$500. No other lawsuits have been brought or settled during the past 18 months.

### *Reimbursements*

FCA performs various examinations, training, and other services for Federal agencies and private business and is reimbursed for this work.

SBA—FCA provided examination, training, and other services to SBA during FY 2006 and was reimbursed \$713,593.

USDA—FCA provided examination, training, and other services to USDA during FY 2006 and was reimbursed \$500,170.

FCSIC—FCA provided examination, training, and other services to FCSIC during FY 2006 and was reimbursed \$127,574.

NCB—FCA provided examination services to NCB during FY 2006 and was reimbursed \$111,262.

### **Strategic Plan, FYs 2004–2009**

The Government Performance Results Act of 1993 requires the FCA Board to establish the strategic direction of the Agency. The Board's strategic plan for FYs 2004–2009 defines the Agency's mission and goals for its stakeholders, including FCA staff, and prioritizes the issues, functions, and programs that require an investment of resources.

Goal 1—Public Mission: Although the challenges of financing agriculture in a stable and constructive manner remain great, the FCA Board is committed to emphasizing the public purpose and mission-related responsibilities of the agricultural GSEs while ensuring that they operate in a safe and sound manner. To this end, FCA provides a regulatory environment that permits System institutions to compete effectively in the marketplace, as well as to encourage the identification and development of partnerships and alliances with other public and private financial service providers to address the growing needs of rural residents for credit and other financial services.

The Agency has established six performance measures to help determine its progress toward the successful achievement of this goal. In particular, its performance measures focus on using supplemental approaches to ensure that FCA gathers a diverse range of public input on the Agency's regulatory initiatives. The measures also look at Farmer Mac's mission and provide a basis for determining its progress and effectiveness.

Goal 2—Safety and Soundness: A key Agency activity is to evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac. Most of FCA's resources are devoted to this function. The money is used to preserve and enhance FCA's examination and supervision program through a well-trained, professional, and experienced examination staff; to stay abreast of changing market forces, economic developments, and customer needs; to use technology to conduct examinations more efficiently; and to undertake supervisory actions, when needed, to proactively ensure safety and soundness in the System and Farmer Mac. The Agency uses seven measures to monitor progress for goal 2.

Goal 3—Implement the President's Management Agenda: FCA has implemented policies and programs that support the five Government-wide initiatives in the President's Management Agenda. The five initiatives are (1) the strategic management of human capital, (2) improved financial performance, (3) an expansion of electronic government, (4) budget and performance integration, and (5) competitive sourcing. The Agency has five performance measures that pertain to the accomplishment of goal 3.

The information in this budget justification demonstrates that the Agency fully supports the President's Management Agenda. FCA outlays have held steady as the Agency has adopted new information technology, outsourced more functions, and reorganized its staff to capitalize on the talents and skills of its employees. FCA has also used strategic workforce planning to develop its HCP to ensure that it recruits, trains, and retains a high-performing workforce. For several years, FCA has used performance budgeting to establish performance parameters and, as noted, the Agency has established performance measures to monitor effectiveness and efficiency. Through a continuous monitoring and evaluation process, FCA is fulfilling its stewardship responsibilities in a cost-effective and efficient manner.

## **FCA Realignment Update**

In FY 2005, FCA initiated a series of strategic studies on the Agency's organization and operation to identify ways to enhance its overall mission effectiveness. As a result of this work, FCA made several organizational changes in FY 2006 to give the Agency the flexibility it needs to regulate increasingly complex financial institutions that are facing new competitive pressures in a rapidly changing marketplace. Human capital planning was an important part of this strategic realignment and is fully addressed in the HCP. The following information updates the organizational changes FCA accomplished during FY 2006.

### *Office of Examination*

The Office of Examination made several organizational changes in 2006 to establish a flexible organizational structure that has a national focus but maintains a local presence. Changes in our external environment, coupled with pending retirements and the normal attrition of examiners, created the need for greater flexibility to more effectively address the risk profiles of FCS institutions. Instead of duplicating the examination function in each field office, Agency examiners now work with institutions that are grouped according to certain risk characteristics regardless of location. Thus, our examination activities increasingly are assessing risks on a national level. Findings and recommendations from these "horizontal" reviews are communicated broadly to FCS institutions as part of our strategic risk supervision efforts.

The new organizational structure has been fully implemented with management and key staff selections in place. The Office's structural changes are designed to improve our oversight activities and the identification of emerging risks within the System and the financial services industry. Internally, these changes will also help support the FCA Risk Committee, which was established to provide a forum to (1) facilitate FCA Board awareness of risks to the ongoing mission fulfillment and safety and soundness of the System and Farmer Mac, (2) ensure an integrated and coordinated Agency risk analysis process that

effectively uses information from a wide variety of internal and external sources, and (3) foster open discussion about risks to the FCS and Farmer Mac and the implications of such risks for future Agency operations.

The Office of Examination is still addressing the higher-level responsibilities and technical skills that are needed to run a program with a national focus. The FY 2007 and FY 2008 budgets reflect the Office's ongoing efforts to upgrade certain positions over the next 2 years, improve communications through information technology, and attract and retain individuals with the skills needed to carry out the vision and mission of the Office.

#### *Office of Regulatory Policy*

The goal of the Office of Regulatory Policy's strategic reorganization is to enable staff members to fully focus their energy on the Office's primary responsibility: developing policy positions through regulations and other means that implement applicable statutes, promote the safety and soundness of the FCS, and support the FCS's public mission for agriculture and rural America. The Office streamlined its management structure by selecting team leaders for its key policy functions, thereby reducing the number of managers.

The Office of Regulatory Policy is also responsible for coordinating the activities of the Regulatory Policy Committee. Most of the items on the FCA Board's regulatory agenda are discussed by the Committee before the Office Director submits recommendations to the FCA Board for a vote. Finally, the Office supports the activities of the Board's Strategic Planning and Risk Committees.

Although the Office of Regulatory Policy has completed its reorganization and is operating at full strength, several positions are filled by employees on temporary detail from other offices. Moreover, projected retirements over the next 5 years will reduce staffing numbers along with the Office's level of institutional knowledge. Therefore, the Office plans to move decisively over the next 2 fiscal years to attract and train qualified staff members to maintain its policy expertise.

#### *Office of Management Services*

The primary mission of the Office of Management Services is to provide administrative support and key resources for the Agency's mission objectives, as well as to support and facilitate FCA's strategic and operational planning processes. During FY 2006, the Office streamlined its organizational structure by establishing five teams: Client Services and Communications, Finance, Personnel and Purchasing, Technology, and Applications.

The Client Services and Communications team serves as the linchpin in the Office's team structure, working closely with the FCA Board and other offices to coordinate service delivery. The Finance team formulates and executes budgets, develops assessments to FCS institutions and service corporations, analyzes office payroll costs, and assists with financial reporting issues. The Personnel and Purchasing team assists FCA with strategic planning of human resources, including recruiting and staffing. The Technology team serves FCA by building and maintaining the Agency's information technology infrastructure. The Applications team serves FCA by developing and maintaining custom-designed applications.

The Office of Management Services' reorganization effort is largely complete and FCA has already realized several efficiencies by outsourcing some activities and transferring staff to fill openings in other offices. The Office budget for the next 2 fiscal years reflects a continuing effort to find solutions that will improve operations and facilitate the achievement of FCA's mission in a cost-effective manner.

### **Independent Auditing and Accountability**

Harper, Rains, Knight & Company, PA (HRK) was engaged by the Office of Inspector General to perform the annual audit of FCA's financial statements. On November 3, 2006, HRK issued an opinion letter relating to the audit of the Agency's financial statements ending September 30, 2006, and 2005. HRK opined that the principal financial statements presented fairly, in all material respects, the financial position of FCA as of September 30, 2006, and 2005, in conformity with generally accepted accounting principles. In conducting the aforementioned audit, HRK performed tests and issued reports on the Agency's system of internal control over financial reporting and compliance with laws and regulations. HRK's report on internal control noted no matters HRK considered to be material weaknesses. The audit firm's report on compliance with laws and regulations noted no instances of noncompliance. The Inspector General concurred with the reports and stated that HRK's work provided a reasonable basis on which to express its opinion.

## **ENSURING THE SAFETY AND SOUNDNESS OF THE FCS**

### **The Farm Credit System**

#### *Statutory Requirements*

The Farm Credit Act requires FCA to examine each FCS institution at least once every 18 months. This minimum statutory requirement is achieved through ongoing examination activities on each FCS institution. These activities include monitoring, interim examinations, and national examinations. This risk-based approach provides differential risk-driven examination coverage to all institutions throughout their examination cycles. Our examination approach emphasizes the importance of proactive, constructive communication with regulated institutions through a combination of methods. FCA is also responsible for examining Farmer Mac (see page 35 for information on Farmer Mac) and NCB, which is not an FCS institution.

FCA Regulation 12 CFR 621.12 requires each FCS institution, including Farmer Mac, to prepare and file reports of condition and performance. These quarterly reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information. FCA Regulation CFR 630.4 requires the Federal Farm Credit Banks Funding Corporation (Funding Corporation) to prepare consolidated FCS information, which is available to the public. Additional information is submitted through FCA's Consolidated Reporting System, which is available to the public through FCA's Web site ([www.fca.gov](http://www.fca.gov)). FCA also collects loan-level data for all System institutions through the Loan Account Reporting System. Section 5.9(4) of the Farm Credit Act establishes the Agency's authority to require any such reports it deems necessary from System institutions. Collectively, this information is essential to the Agency's ability to monitor the safety and soundness of the FCS.

#### *Risk-Based Examination and Supervision*

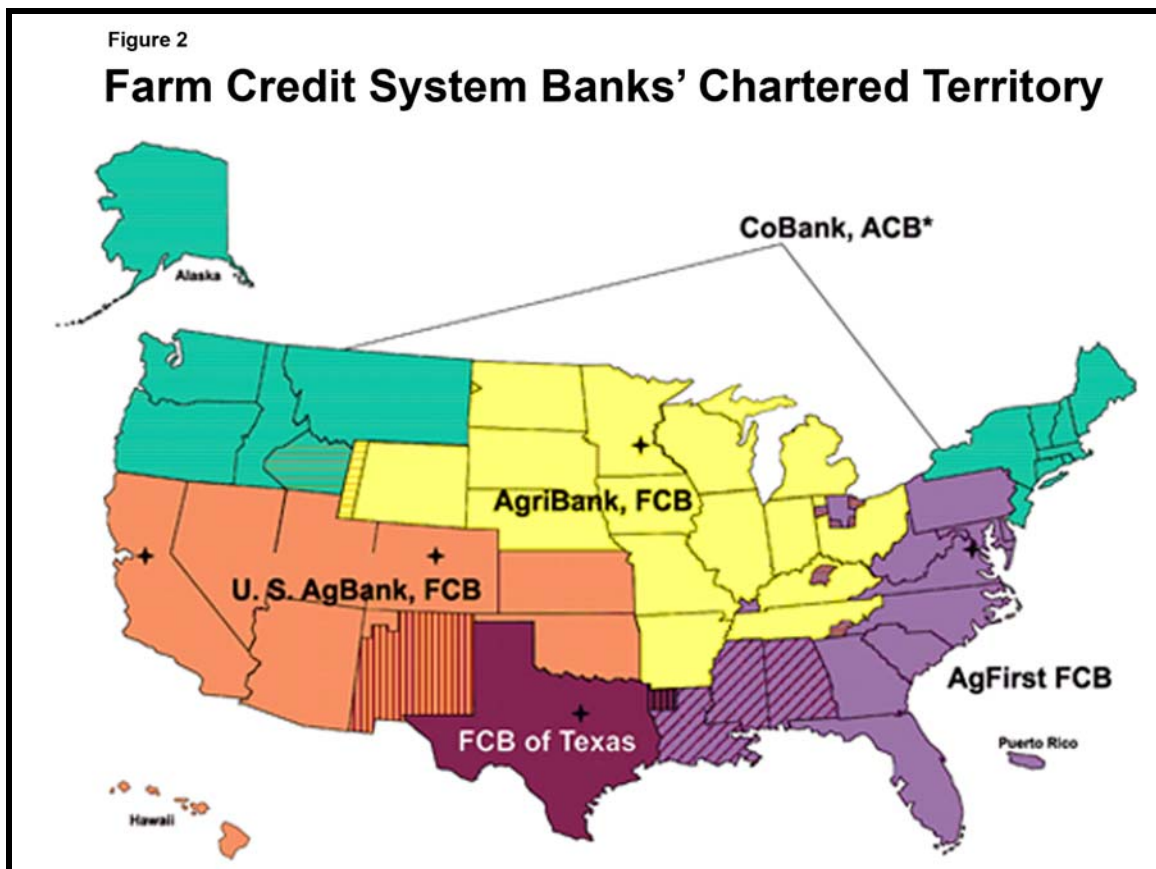
FCA's risk-based examination and supervisory programs are designed to maximize effectiveness and efficiency while strategically addressing FCS risk. FCA allocates examination resources to matters of highest priority and potential risk within individual institutions and the FCS as a whole. This differential approach is geared to the FCS institution's ability to identify and manage both institution-specific and systemic risks. When institutions are either unable or unwilling to address unsafe and unsound practices or to comply with applicable laws and regulations, FCA's examination efforts are augmented by appropriate supervisory action.

FCA's examination program promotes accountability in FCS institutions for their programs, policies, procedures, and controls. These business operations provide the necessary framework for institutions to identify and manage risks. We also establish policies and regulations to ensure that key risk areas are addressed throughout the System. For example, our regulations require FCS institutions to have effective loan underwriting and loan administration processes. Similarly, other regulations require FCS institutions to maintain strong asset-liability management capabilities. Our regulations set high standards for governance and transparent disclosures for shareholder oversight. Most issues are resolved through required corrective actions established in the Report of Examination or

other communications. In extreme cases, FCA will use its enforcement powers, when necessary, to effect changes in the institution's policies and practices to correct unsafe or unsound conditions. FCS institutions are responsive to regulatory direction, and no formal supervisory actions have been taken in recent years.

Over the last 20 years, FCA has worked diligently to develop a comprehensive regulatory and supervisory framework that promotes and helps ensure the System's safety and soundness. FCS institutions have developed strong risk management cultures in response to our examination and supervision programs and our policies and regulations. These policies and practices continue to set high standards for the System.

The Agency's examination responsibilities are carried out by examiners in five field offices located throughout the continental United States (see figure 2). One field office is maintained at our McLean, Virginia, headquarters; the other field offices are located in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. FCA does not anticipate any change in its field office structure in FY 2008.



+ Identifies FCA field office locations in relation to FCS districts.

### *Identifying and Responding to Potential Threats to Safety and Soundness*

Because of the continually evolving dynamics and risks in the agricultural and financial industries, FCA must ensure that FCS institutions have the culture, policies, procedures, and management controls to effectively identify and manage applicable risks. For the Agency to be fully effective in meeting this challenge, we must have robust processes for evaluating and responding to systemic risks that can affect an institution, a group of institutions, the System as a whole, agriculture, and/or the financial industry. As such, we are pursuing two long-term complementary strategies: (1) to develop improved systemic risk analysis and monitoring capabilities, and (2) to increase our risk supervision activities to better and more proactively respond to identified risks and emerging issues on a national basis.

The first strategy embraces a more macro or national approach to systemic risk identification. This approach is designed to give us better decision-making ability for setting examination priorities, identifying potential regulatory issues, allocating resources, and proactively evaluating emerging risk exposures. The second strategy emphasizes increased and more proactive internal and external communications on emerging risks, Agency expectations, and areas of examination and oversight emphasis.

FCA is currently highlighting the following four areas in our examination program for FCS institutions: (1) internal control environment and disclosures; (2) governance, with special attention to cooperative principles, capital management, and compensation practices; (3) risk management systems, especially processes related to counterparty risk and collateral risk; and (4) mission accomplishment, including investments in rural America, lending to YBS farmers and ranchers, and diversity.

### *Measuring the Safety and Soundness of the System*

The Financial Institution Rating System (FIRS) is a key risk rating methodology used by the Agency to indicate the safety and soundness threats in each institution. Similar to the systems used by other Federal financial regulators, it is a CAMELS-based system,<sup>3</sup> with ratings for the individual components all factoring into an overall composite rating. The FIRS provides a general framework for evaluating and assimilating all significant financial, asset quality, and management factors to assign component and composite ratings. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect, whereas a composite rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in the FCS. The Agency maintains both quantitative and qualitative benchmarks as general examiner guidelines to facilitate consistent application of the FIRS process. FCA discloses these confidential FIRS composite and component ratings to the institution's board to provide perspective on relative safety and soundness. Examination reports and other communications also provide the institution board with an assessment of management's performance, the quality of assets, and the financial condition and performance of the institution.

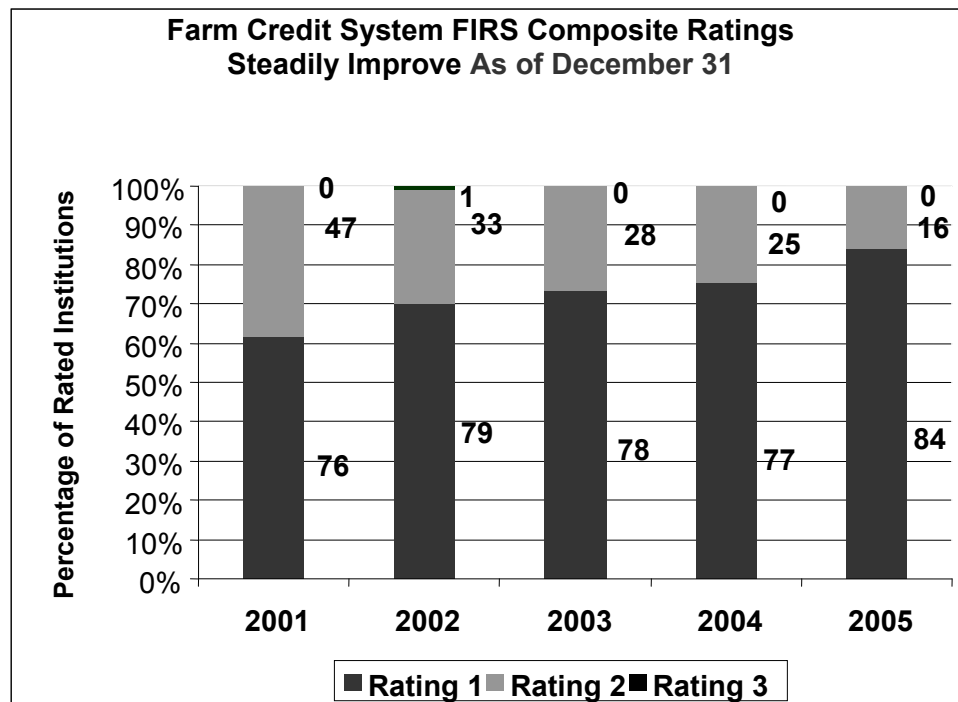
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<sup>3</sup> CAMELS is an acronym for the following components: capital, asset quality, management, earnings, liquidity, and sensitivity.



FIRS ratings continue to reflect strong FCS financial condition and performance (discussed in part III) and have been trending upward for several years (see figure 3). As of September 30, 2006, 88 institutions were rated 1, and 13 were rated 2. Notably, there were no institutions with ratings of 3, 4, or 5. These ratings reflect a fundamentally safe and sound FCS. The overall financial strength maintained by the System reduces the risk to investors, the FCSIC, and FCS institution stockholders.

Figure 3.



Source: FCA's FIRS Ratings Database.

Beginning in 2006, we supplemented the FIRS process with more granular risk assessment criteria. The risk assessment areas include credit, interest rate, liquidity, operations, compliance, strategy, and reputation. Although it is still in the testing period, this tool is being used to allocate Agency resources in a risk-based manner. Along with institution size, existing risk exposure and the scope and nature of each institution's business model will be key factors determining the Agency's oversight strategies, using both our traditional FIRS ratings and our new risk assessment criteria.

### *Summary of FCS Examinations*

In FY 2006, FCA conducted oversight and examination activities on 95 FCS direct-lender associations, four Farm Credit Banks, five service corporations, one Agricultural Credit Bank, Farmer Mac, and NCB, which is not an FCS institution. The examination program covered not only the FCS, but also some activities of SBA and USDA. SBA contracted with FCA to conduct examinations of financial companies licensed by SBA to make guaranteed

loans to small businesses. USDA contracted with FCA to conduct examinations of financial companies authorized by USDA to make guaranteed loans under USDA's Business and Industry (B&I) Guaranteed Loan program. FCA examiners also completed reviews of B&I program operations at selected USDA state offices.

## **Federal Agricultural Mortgage Corporation**

As part of its regulatory duties, FCA, through OSMO, performs annual comprehensive CAMELS-based examinations and supervision of Farmer Mac's operations and condition for safety and soundness and mission achievement. This examination and supervision work includes the ongoing review of Farmer Mac's compliance with the risk-based capital regulations and ongoing supervision of its operations and conditions throughout the year.

### *Assessment of Statutory Authorities and Regulations*

Farmer Mac is regulated by FCA through OSMO, which was established in 1992 as a result of the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102-237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO constitute a separate office reporting to the FCA Board, and that its activities, to the extent practicable, be carried out by individuals not responsible for supervising the banks and associations of the FCS.

### *Data Reporting Requirements*

Farmer Mac is required to submit quarterly Call Reports to OSMO in addition to several other periodic reporting requirements related to regulatory risk-based capital, mission, liquidity, and its financial derivatives portfolio. In addition, Farmer Mac is subject to disclosure and reporting requirements of the Securities and Exchange Commission.

### *Summary of Examination*

Farmer Mac experienced significant growth in its outstanding portfolio of loans and guarantees in 2006. Program activity was up 33 percent to \$7.1 billion in FY 2006 from year-end 2005. Farmer Mac held cash and nonprogram investments on its balance sheet of \$2.7 billion at fiscal year-end 2006. Of this volume, \$500 million is the result of an investment in the rural electric utilities sector. Credit quality has improved and real estate-owned volume is down significantly.

In November 2006, Farmer Mac restated its financial results for 2005 and several other periods to remove the impact of accounting for derivatives as hedges against interest rate movements. As a result, its net income is expected to fluctuate more in the future. Farmer Mac does not expect the accounting change to affect its business model or its ability to carry out its statutory mission.

Farmer Mac's restated net income for 2005 was \$49.3 million, a 19 percent increase over 2004. It had core capital of \$237 million as of year-end FY 2006, compared with \$234 million at fiscal year-end 2005. The minimum core capital requirement for Farmer Mac's on- and off-balance sheet items is set in the statute and was \$171 million at year-end FY 2006. Thus, Farmer Mac exceeded its minimum core capital requirement by nearly \$65 million. At year-end FY 2006, Farmer Mac had \$242 million in regulatory capital available to meet the \$46.3 million minimum requirement established by FCA's Risk-Based Capital (RBC) model.

### *RBC Model*

Section 8.32 of the Act requires that the RBC model subject Farmer Mac to credit losses on agricultural mortgages it owns or guarantees. The rate of loan default and severity of losses must be reasonably related to those experienced in contiguous areas of the United States containing at least 5 percent of the total U.S. population that experienced the highest rate of default and severity of agricultural mortgage losses during a historical period of at least 2 consecutive years. The Act also required in the RBC model an interest rate risk stress scenario based on rising and falling interest rates on Treasury obligations of various terms. In addition to the credit loss and interest rate risk components of the RBC model, Farmer Mac is required to maintain additional capital to protect against management and operational risks. This additional capital specified in the Act is 30 percent of the capital level required for the sum of the credit loss and interest rate risk components of the RBC model.

The output of the stress test depends on Farmer Mac's risk profile. High-risk loan assets and/or significant interest rate risk exposure will result in the RBC model determining a higher regulatory capital requirement. Conversely, if Farmer Mac maintains a low-risk profile in both its loan portfolio and interest-rate risk exposure, the stress test will calculate a correspondingly low capital requirement. Farmer Mac is required by regulation to have its operation of the model validated by an independent third party at least every 3 years. It completed this requirement for the first time in 2005. The independent party concluded that Farmer Mac was operating the model appropriately.

On November 9, 2006, the FCA Board approved a final rule to amend the rules governing the RBC model (see information on page 38). The rule is intended to improve the model by reflecting changes in Farmer Mac's business profile. We expect the rule to become effective in the first quarter of calendar year 2007.

## DEVELOPING REGULATIONS AND POLICIES

FCA routinely issues regulations, policy statements, and other documents to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission. Changes to the FCA Board's policy statement on regulatory development highlight the structure of System institutions: FCS institutions are structured as cooperatives and the System's role as an agricultural lender is unique.

The Agency's regulatory philosophy articulates its commitment to establish a flexible regulatory environment that enables the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. This commitment translates into the development of balanced, well-reasoned, and flexible regulations in which we weigh both the benefits and costs to our regulated entities. Our objectives are to enhance the System's relevance in the marketplace and rural America while remaining consistent with the law and safety and soundness principles, and to promote participation by member-borrowers in the management, control, and ownership of their GSE institutions.

### Regulatory and Policy Projects Active at Year-End FY 2006

The FCA Board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives to implement any statutory changes or to address other regulatory issues. The Agency publishes its Unified Agenda and Regulatory Performance Plan on the FCA Web site and in the Federal Register, in part, to notify the public of its upcoming regulatory actions, as well as to encourage the public to participate in the regulatory process. The FCA Board-approved Unified Agenda is published each fall and updated in the spring.

The following list summarizes our current regulatory efforts, plus other guidance that is under consideration in FY 2007. The second list identifies projects that were completed in FY 2006 along with a few communications that were recently issued to System institutions to clarify our rules.

Capital Adequacy-Basel Accord—The Agency continued to monitor the development of Basel II and Basel IA proposals on capital adequacy by other Federal banking agencies throughout FY 2006. FCA plans to develop and issue an Advanced Notice of Proposed Rule Making to solicit public input on capital adequacy requirements for the System.

Disclosure and Accounting Requirements Study—FCA will evaluate the existing regulatory requirements for accounting and disclosure to shareholders and investors. Agency staff will identify issues and options for the FCA Board's consideration.

Disclosure and Reporting Requirements Rulemaking—The FCA Board adopted a proposed rule to amend the regulatory disclosure and reporting requirements for FCS institutions in February 2006. The FCA Board adopted the regulation as final in November 2006 to enhance shareholders' and investors' understanding of, and confidence in, the System's operations through improved transparency.

Farm and Financially Related Services—FCA is evaluating the existing regulatory requirements for offering related services. We will explore regulatory changes to address the types of farm and financially related services System institutions may offer their members.

Farmer Mac Risk-Based Capital Stress Test (RBC model) Revisions—In October 2005, the FCA Board approved a proposed rule to revise the RBC model. The Board adopted the regulation as final in November 2006 to ensure a more accurate reflection of the risk in Farmer Mac's operations. The Agency is also studying the possibility of revising the Farmer Mac Risk-Based Capital Stress Test to better accommodate the evolving terms and structure of certain program business underwritten by Farmer Mac.

Farmer Mac Business Planning—FCA is considering the need for issuing a regulation to require Farmer Mac to have a business plan for conducting electronic commerce.

Investments in Rural America—FCA continues to evaluate how System partnerships and investments can increase the availability of funds to help stimulate economic growth and development in rural America under a pilot program initiated during FY 2005. Under the pilot program, System institutions must obtain Agency permission before making investments that advance their mission to finance agriculture and rural America.

Joint and Several Liability, Priority of Claims—FCA has initiated a rule-making project in response to a regulatory petition. System banks have asked FCA to modify the priority of claims under their joint and several obligations for debt issuances.

Lending Program Requirements—FCA is evaluating the existing statutory and regulatory requirements of System lending programs and underwriting standards. Agency staff will identify issues and options for the FCA Board's consideration.

Loan Syndications and Assignment Markets Study—FCA continues to study loan syndication and assignment markets to help determine whether the Agency's approach to loan syndications and assignments should be modified to reflect significant changes in the markets.

Processing and Marketing—FCA published a proposed rule in October 2006 to change the ownership requirement for the eligibility of processing and marketing entities.

Scope of Lending Related Issues—FCA is reviewing the eligibility and scope of lending regulations to determine if the current requirements are appropriate. We plan to clarify an FCA regulation regarding the definition of moderately priced housing to ensure that it is interpreted and applied consistently throughout the System. We also plan to develop a proposed rule for the FCA Board's consideration in FY 2007 to address the eligibility and scope of lending standards.

## **Regulatory and Policy Projects Completed During FY 2006**

Assessment of FCA Expenses—The FCA Board withdrew a proposed action to evaluate regulatory options for assessment and apportionment of FCA administrative expenses.

Electronic Filing of Regulatory Reports—FCA issued an Informational Memorandum to reemphasize the guidance we provided to System institutions in 2002 on the electronic filing

of regulatory reports. This communication encouraged all FCS institutions to submit their reports and other examination reporting information electronically.

Equal Employment Opportunity and Diversity Policy Statement—The FCA Board updated and reaffirmed the Agency's Equal Employment Opportunity and Diversity Policy Statement (FCA-PS-62) during FY 2006.

FCA Organization—FCA amended its regulations on organization and functions to reflect the changes in the Agency's structure and personnel as well as to update the statutory citation for the Farm Credit Act of 1971, as amended.

Similar Entity Transactions—FCA issued clarifications on reporting credits that enter the System as transactions to borrowers who are "similar entities" under one title of the statute, but are eligible borrowers under other titles.

Governance, Conflict of Interest, Compensation Disclosure, and Audit Committee Standards—FCA amended its regulations on the governance of FCS institutions for enhanced oversight of management and operations. The rule also enhanced the disclosure requirements for System institution employees and directors who receive compensation from other entities as well as required audit committee standards and compensation committees for all FCS lending institutions.

Investments in Farmers' Notes—FCA withdrew a repropose rule that received limited support from the System and was opposed by a large number of commercial banks. The objective of the repropose rule was to make credit more available to non-System lenders who make agricultural loans and to enterprises that sell agricultural supplies, equipment, and other capital goods on credit to farmers and ranchers.

Lending Programs for Farmers' Other Credit Needs—FCA issued an Examination Bulletin to provide guidance for evaluating programs that System institutions use in meeting the other (i.e., nonagricultural) credit needs of farmers, ranchers, and producers or harvesters of aquatic products. The Examination Bulletin clarifies the types of "other credit needs financing" that are available to eligible borrowers.

Privacy and Security Information—The FCA Board approved a final rule to update the existing Privacy Act and security information regulations. This action was necessary to ensure the regulations reflected the latest Executive orders and applicable directives.

Qualified Residential Loans—FCA issued an Examination Bulletin to provide clarification and guidance regarding the types of loans that can be considered "qualified residential loans" and proper risk-weighting treatment for regulatory capital purposes.

Regulatory Burden Review—FCA made several regulatory changes to remove or revise outdated, unnecessary, or burdensome regulations identified in our earlier solicitation for regulatory burden comments. We published a proposed rule, a notification, and a final rule in FY 2006 to complete the solicitation.

Security for Long-Term Loans—FCA issued an Informational Memorandum to clarify the regulations on security requirements for long-term loans. The Informational Memorandum served to clarify the following:

- The types of property that satisfy the "agricultural or rural property" collateral requirements

- The amount of additional nonrural, nonagricultural property an institution can take as collateral

Terminations—FCA published a final rule in August 2006 to amend and update the existing regulations that govern the termination of System status. The final rule addressed numerous issues related to terminating System status such as costs, timing, communication, voter quorums, tax implications, directors' rights, the equitable treatment of dissenting stockholders, and the overall effect on the System.

## **FCS Corporate Activity and Other Prior Approvals**

FCA's prior approval function, governed by the Farm Credit Act and FCA regulations, encompasses two distinct processes—corporate applications and noncorporate applications. Corporate applications involve FCS requests for the issuance of new or amended charters, as well as cancellation of charters due to liquidations or termination of System status. Noncorporate applications include prior approval requests, such as preferred stock offerings.

### *Corporate Activity*

On April 1, 2006, a Federal Land Credit Association (FLCA) affiliated with the Farm Credit Bank of Texas (FCBT) changed its name and headquarters location. A second FLCA, also affiliated with the FCBT, changed its name on August 1, 2006. On September 1, 2006, two Agricultural Credit Associations (ACAs), one affiliated with AgriBank, FCB, and the other with AgFirst Farm Credit Bank, changed their names and the names of their respective Production Credit Association (PCA) and FLCA subsidiaries.

On July 1, 2006, an FLCA affiliated with the FCBT converted its charter to an ACA. To effect this change, the Agency needed to charter a PCA with which the FLCA could consolidate to establish the ACA. The ACA now operates with PCA and FLCA subsidiaries. The ACA parent structure allows an association to provide a broader range of specialized services to its member borrowers. This structure also preserves the tax-exempt nature of profits made by FLCA subsidiaries of an ACA while allowing one-stop lending for both long- and short-term loans.

Thus far in FY 2007, an FLCA affiliated with the FCBT has converted its charter to an ACA (again the Agency had to charter a PCA with which the FLCA could consolidate to form the new association). The effective date for the formation of the new ACA was October 1, 2006; like its sister institutions, it operates with PCA and FLCA subsidiaries. Also on October 1, 2006, two ACAs affiliated with the FCBT merged into a single ACA with subsidiaries. All ACAs in the System now operate with the ACA parent structure.

### *Cancellation of Charters*

In FY 2006, FCA did not cancel the charters of any FCS institutions because no mergers or consolidations occurred during this period. Thus far in FY 2007, FCA has cancelled the charters of three associations—an ACA and its PCA and FLCA subsidiaries—because of a merger involving two ACAs that are affiliated with the FCBT.

### *Projected Mergers and FCS Institution Size*

As of January 1, 2007, the System had 95 direct-lender associations and 5 banks for a total of 100 banks and associations. Eight service corporations and special-purpose entities brought the total number of FCS institutions to 108 (including Farmer Mac). Through mergers, the number of FCS associations has declined 45 percent since 2000, and the number of FCS banks has dropped almost 30 percent. Generally, these mergers have brought larger, more cost-efficient, and better capitalized institutions with a broader, more diversified asset base, both by geography and by commodity.

The Agency estimates that within the next 4 to 5 years the number of direct-lender associations may decline to 75 or fewer and the number of banks to 3. Consequently, these mergers will increase the size of System entities, with the average association exceeding \$1 billion in total assets. System institutions will also possess more complex management systems and offer a broader range of financial services to their borrowers.

### *Funding Activity*

The FCS raises funds for loans and investments by the sale of debt securities through the Funding Corporation,<sup>4</sup> the fiscal agent for the Farm Credit banks. Through this conduit, funds flow from worldwide capital market investors to agriculture and rural communities, providing them with ready and efficient access to global resources. System-wide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all funding requests. For the 12 months ending September 30, 2006, the FCS issued \$342 billion in debt, up from the \$310 billion and \$334 billion issued in the corresponding periods of 2005 and 2004, respectively. FCS debt issuance increased in the most recent period as a result of the Farm Credit banks' need to fund sizeable increases in their loan and investment portfolios as well as their response to a continued flattening of the yield curve, which at times was inverted.

### *Mission-Related Investments*

In January 2005, FCA issued guidance that gave System institutions a provisional opportunity to make additional mission-related investments (MRIs) through pilot programs supporting investments in rural America (see FCA Informational Memorandum dated January 11, 2005, on Investments in Rural America—Pilot Investment Programs). The pilot programs are intended to strengthen the System's mission to provide for an adequate and flexible flow of funds, under specified conditions, to agriculture and rural communities across the country. Further, the pilot investment programs are intended to provide FCS institutions greater flexibility to partner with Government agencies and other agricultural and rural lenders in fulfilling their mission objectives. Through these pilot investment programs, FCA is looking to gain a better understanding of the diverse financing needs of agriculture and rural

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<sup>4</sup> Headquartered in the greater New York City area, the Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. The Funding Corporation is the financial spokesperson for the Farm Credit System and is responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.



communities and how FCS institution investments can help increase the availability and efficiency of funds to these markets and address existing funding gaps.

Since initiating this pilot investment program, FCA has approved 21 applications from FCS banks, associations, and districts to make investments in rural America. FCA has placed a number of controls on these pilot investment programs to ensure their safety and soundness and mission focus. These controls include participation criteria to ensure that only well-managed and strongly capitalized institutions may conduct pilot programs. The controls also specify the investment purposes that the programs should fulfill, impose program and risk limits, require prudent investment management standards, and limit the pilot period to 1 to 3 years.

Examples of investments made under these pilot programs include investments in rural housing mortgage securities, essential rural community facilities, rural business investment companies, and investments that provide essential start-up capital for young and beginning farmers in the form of subordinated debt.

In FY 2007 and FY 2008, we expect the number of MRI applications to be significantly fewer, as most FCS institutions will be focusing on implementing pilot programs approved by the Agency in FY 2006. However, we will continue to expend resources on refining our examination, supervision, and reporting processes, providing examiner education, and evaluating the types of investments being made and their benefits to agriculture and rural America.

#### *Preferred Stock*

In FY 2006, FCA received a proposed disclosure statement from one Farm Credit association for the issuance of \$100 million of nonvoting, cumulative preferred stock to its members. After reviewing the disclosure material, the FCA Board indicated that it had no objection to the dissemination of the disclosure statement to the members and the issuance of the preferred stock since the association had met all the requirements of part 615 of FCA regulations.



## **PART III**

### **Farm Credit System**

## PROFILE OF THE FARM CREDIT SYSTEM

The FCS is the largest agricultural lender in the United States with a network of borrower-owned cooperative financial institutions and related service organizations. It was created by Congress in 1916 to provide American agriculture with a dependable source of credit and is the oldest of the five financial GSEs. As of January 1, 2007, the System had 100 banks and associations. Five System banks provide loan funds to 86 ACA parent organizations and 9 FLCAs.

Although legally separate, the ACA and its PCA and FLCA subsidiaries operate an integrated lending business, with loans made through the subsidiaries appropriate to the authority of each subsidiary. The ACA, the PCA, and the FLCA are jointly and severally liable on the full amount of the indebtedness to the funding bank under the General Financing Agreement. In addition, the parent company and its subsidiaries agree to guarantee each other's debts and obligations, pledge their respective assets as security for the guarantee, and share each other's capital. The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are exempt from Federal income taxes.

System institutions provide credit and financially related services to farmers and ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities; rural housing; certain farm-related business, agricultural, and aquatic cooperatives; rural utilities; and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling securities in the national and international money markets, subject to FCA's approval. These securities are not guaranteed by the U.S. Government.

### Additional System Entities and Service Corporations

In addition to the System's banks and associations, the Agency is responsible for regulating and examining Farmer Mac (oversight discussed in part II), the Funding Corporation, the FCS Financial Assistance Corporation (Assistance Corporation), and five service corporations organized under section 4.25 of the Farm Credit Act:<sup>5</sup> AgVantis, Inc.; Farm Credit Finance Corporation of Puerto Rico; Farm Credit Leasing Services Corporation (Leasing Corporation); Farm Credit Financial Partners, Inc.; and the FCS Building Association (FCSBA).

Federal Agricultural Mortgage Corporation—Farmer Mac<sup>6</sup> is a stockholder-owned, federally chartered instrumentality of the United States that was created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. Farmer Mac conducts its business primarily through two core programs: Farmer Mac I and Farmer Mac II. Under the former, Farmer Mac purchases, or commits to purchase, qualified loans or

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<sup>5</sup> Section 4.25 of the Farm Credit Act provides that one or more FCS banks or associations may organize a service corporation to perform functions and services on their behalf. These federally chartered service corporations are prohibited from extending credit or providing insurance services.

<sup>6</sup> Farmer Mac is established in law as a part of the FCS. However, Farmer Mac has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac's debt. Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Nonvoting stock may be owned by any investor. Farmer Mac is regulated by FCA through the Office of Secondary Market Oversight. The OSMO Director reports directly to the FCA Board on matters of policy.

obligations backed by qualified loans that are not guaranteed by any instrumentality or agency of the United States. Under the latter, Farmer Mac purchases the guaranteed portions of farm ownership and farm operating loans, rural business and community development loans, and certain other loans guaranteed by USDA.

Federal Farm Credit Banks Funding Corporation—The Funding Corporation is owned by System banks and markets the debt securities that the banks sell to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these securities in the Nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funding to process loans to farmers, ranchers, and agricultural cooperatives.

Financial Assistance Corporation—Created by the Agricultural Credit Act of 1987 and chartered in 1988, the Assistance Corporation provided capital to the System through the purchase of preferred stock issued by System institutions that received financial assistance authorized by the FCS Assistance Board.<sup>7</sup> Approximately \$1.26 billion was provided by the Assistance Corporation. The final portion of financial assistance received by the System was repaid, with interest, in June 2005. After verifying that all business matters were closed, the FCA Board cancelled the charter of the Assistance Corporation on January 11, 2007.

AgVantis, Inc.—AgVantis, Inc., provides technology-related and other support services to the associations affiliated with U.S. AgBank, FCB. It was chartered by FCA in 2001 and is owned by U.S. AgBank and its affiliated associations.

Farm Credit Finance Corporation of Puerto Rico—The Farm Credit Finance Corporation of Puerto Rico uses tax incentives offered to investors to provide low-interest funding (other than that from the Funding Corporation) to Puerto Rico Farm Credit, ACA. Because of changes in the tax treatment of the corporation, AgFirst FCB, the corporation's sole owner, suspended its operations as of December 31, 2005. However, the corporation's charter remains outstanding.

Farm Credit Leasing Services Corporation—The Leasing Corporation, owned by CoBank, ACB, provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc.—Farm Credit Financial Partners, Inc., provides support services to CoBank and its five affiliated associations plus five associations affiliated with U.S. AgBank, FCB and one association affiliated with AgriBank, FCB.

FCS Building Association—FCSBA, which acquires, manages, and maintains facilities to house FCA's headquarters and field office staff, was formed in 1981. It is owned by System banks, but is subject to the oversight and direction of the FCA Board.

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<sup>7</sup> The FCS Assistance Board was created by the Agricultural Credit Act of 1987 to provide assistance to financially troubled FCS banks, protect the stock of System borrowers, restore FCS banks to economic viability, and preserve their ability to provide credit at reasonable and competitive rates. The Assistance Board terminated on December 31, 1992.

## **FCS Mission Fulfillment**

The System fulfills its overall mission by using its authority to lend to agriculture and rural America. Through changes in law since the System's original authorization in 1916, System lending authorities have evolved to include the following:

- Long-term agricultural real estate loans, including rural home loans
- Short- and intermediate-term agricultural loans
- Loans to producers and harvesters of aquatic products
- Loans to certain farmer-owned agricultural processing facilities and farm-related businesses
- Loans to farmer-owned agricultural cooperatives
- Loans that finance agricultural exports and imports
- Loans for rural utilities

In addition to its lending programs, the System is experimenting with several MRI programs to strengthen its ability to provide for an adequate and flexible flow of funds to agriculture and rural communities across the country. These pilot programs often involve partnerships or alliances with other agricultural lenders. Regardless of their scope, they all operate under conditions specified by FCA. (See pages 41-42 for a description of the MRI program.)

## **Financial Condition and Performance**

The overall financial condition and performance of the System remains fundamentally sound in all material respects. In recent years, the FCS has built substantial capital levels and continues to perform well with near-record earnings. In total, the quality of loan assets, risk-bearing capacity, earnings, and capital measures reflect a healthy System.

In June 2006, the Agency submitted a comprehensive report to Congress on the financial condition and performance of the FCS.<sup>8</sup> For the purpose of this Budget Justification, we are providing a short summary of the System's results as of September 30, 2006.

### **Assets**

The System's total assets were \$154.7 billion at September 30, 2006, up \$19.3 billion (14.3%) from a year earlier. The increase was led by continued strong growth in both loans and investments, which increased 12.2 percent and 19.7 percent, respectively. Table 20 summarizes the strong growth experienced in FY 2006.

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<sup>8</sup> Farm Credit Administration 2005 Annual Report on the Farm Credit System, 2006.

Table 20.

**FCS Assets Increased Sharply During FY 2006**

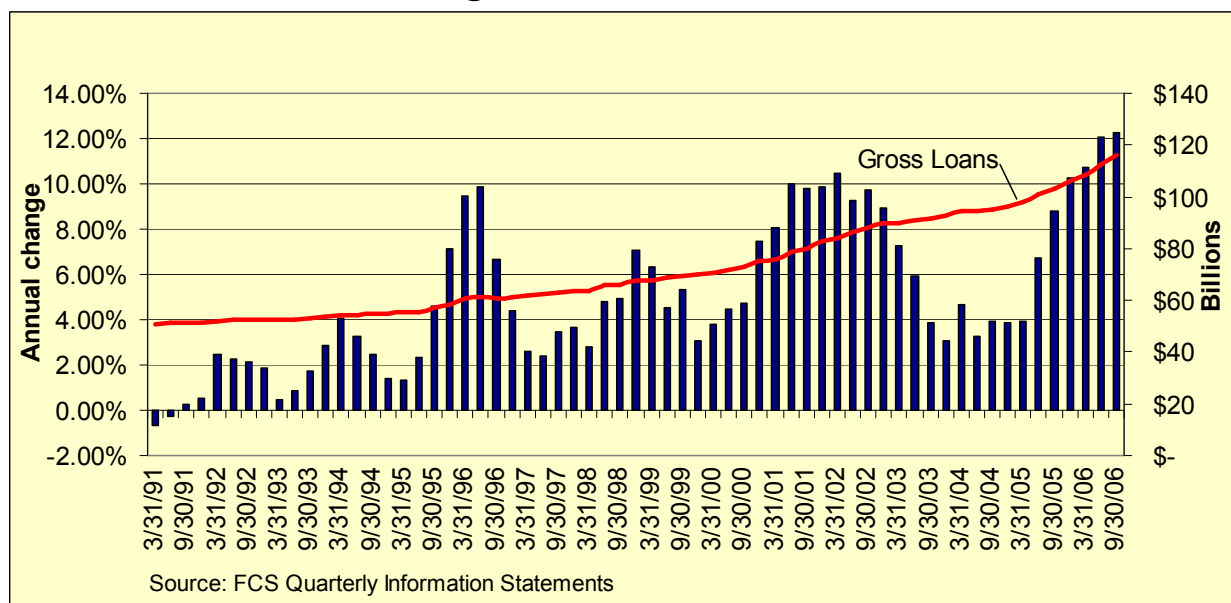
\$ Millions	at September 30		Change	
	2005	2006	\$	%
Cash	268	240	(28)	-10.45
Fed Funds sold & repos	2,033	2,252	219	10.77
Investments				
AFS	23,556	27,852	4,296	18.24
HTM	1,393	2,015	622	44.65
Total investments	24,949	29,867	4,918	19.71
Gross loans	103,225	115,871	12,646	12.25
ALL	(774)	(734)	40	-5.17
Net loans	102,451	115,137	12,686	12.38
Accrued interest rcv.	1,657	2,093	436	26.31
Premises & equipment	495	517	22	4.44
Other assets	1,481	2,355	874	59.01
Restricted assets	2,029	2,243	214	10.55
Total assets	135,363	154,704	19,341	14.29

Source: FCS Quarterly Information Statements

Loans

Gross loans were \$115.9 billion at the end of the period, up from \$103.2 billion a year earlier (figure 4). The 12.2 percent growth was the highest 1-year increase in more than 25 years. One Farm Credit district posted a gain of almost 25 percent.

Figure 4.

**Loans Outstanding Reach \$115.9 Billion in FY 2006**

Investments

Investments totaled \$29.9 billion at September 30, 2006, up \$4.9 billion or almost 20 percent from the previous year. The growth came primarily from \$3.3 billion in additional mortgage-backed securities. The weighted average yield on the investments was about 5.1 percent (see table 21).

Table 21.

**FCS Investments Increased About 20 Percent in FY 2006**

		at September 30				Change		
		2005		2006		Amount		WAY
\$ Millions		Amount	WAY (%)	Amount	WAY (%)	\$	%	bp
Available for sale (fair value)	Money market instruments	2,822	3.76	3,318	5.31	496	17.58	155
	US agency securities	303	3.75	283	3.65	(20)	(6.60)	(10)
	Mortgage-backed securities	17,535	3.95	20,880	5.00	3,345	19.08	105
	Asset-backed securities	2,896	3.58	3,371	5.41	475	16.40	183
	Total	23,556	3.88	27,852	5.07	4,296	18.24	119
Held-to- maturity (amortized cost)	Money market instruments	-		56	7.65	56		765
	Mortgage-backed securities	1,361	5.26	1,833	5.67	472	34.68	41
	Asset-backed securities	32	6.28	126	8.46	94	293.75	218
	Total	1,393	5.28	2,015	5.90	622	44.65	62

Source: FCS Quarterly Information Statements (WAY: Weighted Average Yield)

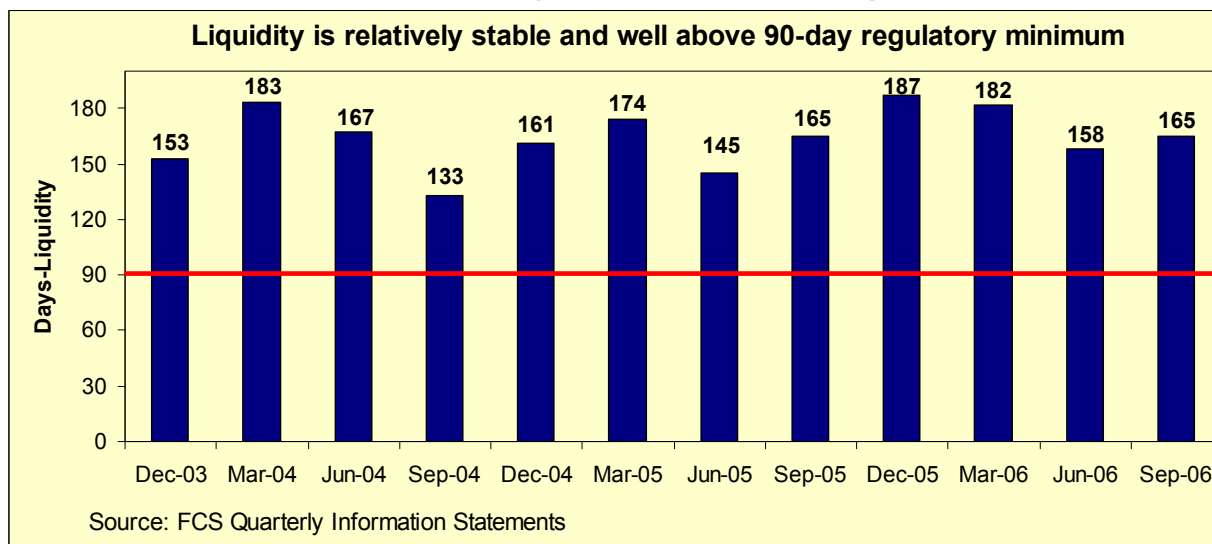
By nearly all indications, the quality of FCS assets is the best it has been since at least the early 1980s. While the 30-day loan delinquency rate increased slightly over the 12-month period (from 0.33 percent of accruing loans a year earlier to 0.35 percent for September 30, 2006), nonperforming assets represented just 2.45 percent of capital, down from 3.39 percent a year earlier. Net chargeoffs for the year remained very low, amounting to less than 0.05 percent of average loans outstanding.

Liquidity

Over the past 12 months, the System's debt increased \$17.3 billion to fund the \$12.6 billion in new loans and \$4.9 billion in new investments. At September 30, 2006, total System liabilities amounted to \$130.5 billion, up 15.8 percent from the year-earlier level. As figure 5 shows, the FCS had 165 days of liquidity at the end of the fiscal year, well above the regulatory minimum of 90 days. Liquidity refers to an institution's ability to repay its debt obligations when due. Therefore, if a funding disruption occurred, the System's strong liquidity position would allow it to meet its financial obligations for several months.

Figure 5.

### FCS Liquidity Levels Are Strong



### Capital

At September 30, 2006, total capital in the FCS amounted to \$24.2 billion, up from \$22.7 billion a year earlier. The 6.7 percent growth rate for the fiscal year was less than half the growth rate of assets. Consequently, the capital-to-asset ratio fell (from 16.8 to 15.7 percent) and the debt-to-equity ratio increased (from 4.97 to 5.39 percent). Surplus continued to be the largest component of total capital, 82 percent, as the amount of capital stock and participation certificates declined about 4 percent (see table 22).

Table 22.

### FCS Capital Growth Rate Slowed in FY 2006, But Remains Strong

\$ Millions	at September 30		Change	
	2005	2006	\$	%
Preferred Stock	1,012	1,022	10	0.99
Capital Stock and Participation Certificates	1,361	1,309	(52)	-3.82
Restricted Capital (Insurance Fund)	2,029	2,243	214	10.55
Accumulated other comprehensive loss	(204)	(206)	(2)	0.98
Surplus	18,493	19,845	1,352	7.31
Total Capital	22,691	24,213	1,522	6.71

Source: Quarterly Information Statements

Over the 12-month period, capital ratios declined at each FCS bank and at about two-thirds of the associations. The only exception at the bank level was one case in which the net collateral ratio remained essentially unchanged. Despite the declines, all banks and associations continued to exceed minimum regulatory capital requirements during the year,



and nearly all institutions have satisfactory capital levels relative to the risk on their balance sheets.

In recent years, more FCS institutions have introduced patronage programs for their members, resulting in an increase in distributions. Patronage and dividend distributions for the first 9 months of 2006 were \$267 million compared with \$206 million for the same period in 2005. While patronage supports cooperative principles and is a growing trend in the FCS, the payments reduce the System's capital growth rates.

### *Earnings*

The FCS earned \$1.8 billion in the first 3 quarters of 2006, a \$235 million (15.2 percent) increase from the comparable period of 2005 (see table 23). Net income was \$621 million in the 3rd quarter of 2006, which was a new quarterly record for the System (ignoring the 4th quarter of 2004 when the System recorded large reversals in the Allowance for Loan Losses account). A significant amount of the gain in net income was due to the interest income received on investments, despite continuing declines in interest rate spreads and margins in the financial markets.

As of September 30, 2006, the System's net interest spread was 1.74 percent, down 27 basis points from the figure of a year earlier, while the net interest margin was 2.48 percent, down 12 basis points. Although yields on the System's loans and investments increased slightly more than 1 percent in FY 2006, rates paid on interest-bearing liabilities increased 1.32 percent.

Table 23.

### **FCS Earnings Show Solid Year-to-Date Growth in 2006**

Nine-Month Results \$Millions	Through September		Change	
	2005	2006	\$	%
Net Interest Income	2,400	2,640	240.00	10.0
\$99M due to increased volume (\$14M) due to increased rates				
- Provision for Losses	15	(12)	(27.00)	-180.0
= Net Interest Income after Loss Provision	2,385	2,652	267.00	11.2
+ Noninterest Income	249	292	43.00	17.3
- Noninterest Expense	1,013	1,086	73.00	7.2
= Pretax Income	1,621	1,858	237.00	14.6
- Provision for Income Tax	74	76	2.00	2.7
= Net Income	1,547	1,782	235.00	15.2
Source: FCS Quarterly Information Statements				

## YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

The YBS Farmers and Ranchers program is a key part of the System's mission for agriculture and rural America. FCA is strongly committed to ensuring that the System fulfills its responsibility to support this important segment of the agricultural industry through our regulatory agenda and examination activities. In March 2004, the FCA Board adopted a final rule in the YBS area that (1) amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs; (2) allows associations the flexibility to design programs unique to the needs of their territories and encourages the establishment of advisory committees comprising YBS farmers; (3) requires each System association to include quantitative targets and qualitative goals in its operational and strategic business plan, as well as to establish internal controls over YBS programs; and (4) requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors. Since adoption of the rule, we have relied on our examination staff to review the policies and programs of the institutions to determine the level of compliance with the YBS regulations and, if necessary, require them to take corrective action. In addition, the Agency continues to review and consider regulatory relief options to support YBS programs in the FCS.

The information that follows shows YBS results for calendar year 2005. FCA is currently collecting information for 2006 and estimates it will be available by March 2007. Summary information on the System's YBS program results is also available on FCA's Web site.

Young—The System's extension of credit to young farmers, those aged 35 or younger, tallied 131,956 loans for \$13.9 billion at the end of 2005. New loans made during the year, rather than loans outstanding at year-end, are a good measure of current service to YBS borrowers. During 2005, 42,360 new loans were made to young borrowers for a total of \$5.03 billion. These new loans represented 16.5 percent of all new loans the System made for the year (257,541) and 11.2 percent of new loan dollar volume (\$45.2 billion).

Beginning—Beginning farmers, defined as those with 10 or fewer years of farming experience, constituted 176,227 of the System loans and totaled \$21.9 billion at year-end 2005. During 2005, 54,876 new loans were made to beginning borrowers for a total of \$8.2 billion. New loans to beginning farmers represented 21.3 percent of all new loans (257,541) and 18.3 percent of new loan dollar volume (\$45.2 billion).

Small—FCS institutions had 451,240 outstanding loans to small farmers (those with gross annual sales of less than \$250,000), totaling \$32.9 billion at the end of 2005. During 2005, 148,240 new loans were made to small borrowers for a total of \$10.9 billion. New loans to small farmers represented 57.6 percent of all new loans (257,541), and 24.2 percent of new loan volume (\$45.2 billion).

Tables 24 and 25 provide the YBS results for calendar year 2005. It is important to note that the YBS information is reported separately for each of the three YBS categories because, depending on a borrower's characteristics, a loan may be counted twice or even three times. Therefore, the YBS categories should not be added together since the final figure would be meaningless as a measurement of the System's YBS lending involvement. Loans outstanding to YBS farmers include real estate loans and short- and intermediate-term loans.

Table 24.

**YBS Loans Outstanding as of Year-End 2005**

Type of Farmer	Percentage of Total Loans	Percentage of Total Volume	Average Loan Size
Young	17.7	12.3	\$105,167
Beginning	23.7	19.4	\$124,163
Small	60.6	29.2	\$ 72,974
Note: YBS data for each category are reported separately and should not be added. At year-end 2005, the outstanding loans to young, beginning, and small farmers totaled \$13.9 billion, \$21.9 billion, and \$32.9 billion, respectively.			

Table 25.

**YBS New Loans Made During 2005**

Type of Farmer	Percentage of Total Loans	Percentage of Total Volume	Average Loan Size
Young	16.5	11.2	\$118,794
Beginning	21.3	18.3	\$150,261
Small	57.6	24.2	\$ 73,685
Note: YBS data for each category are reported separately and should not be added. During 2005, the amount of new loans made by the FCS to young, beginning, and small farmers totaled \$5.0 billion, \$8.2 billion, and \$10.9 billion, respectively.			

To help YBS farmers qualify for credit, most FCS associations offered differentiated loan underwriting standards or made exceptions to those standards for YBS borrowers. Examples include using higher loan-to-appraised value ratios or lower debt repayment capacity standards for YBS borrowers. More than half of all FCS associations have lower interest rate programs, and nearly as many offer lower loan fees for YBS borrowers.

Most FCS associations use Government guaranteed loans, primarily those of the Farm Service Agency. Use of these guarantees reduces credit risks to the lender while enabling associations to make loans to borrowers who would not otherwise meet the underwriting standards. Finally, many associations offer a wide range of training programs or other services for YBS farmers; examples include programs to build leadership and financial management skills and special conferences for young farmers.

## MARKET SHARE OF FARM DEBT

According to a USDA Web site update that was posted on November 30, 2006, commercial banks had a larger (2 percent) market share gain in total farm debt than the System (up about 0.5 percent) for the year ending December 31, 2005. USDA's final estimate for year-end 2005 total farm business debt was \$215.5 billion, with commercial banks holding 41.8 percent and the System 31.7 percent.

From a historical perspective, farm debt peaked at \$188.8 billion at the end of 1984, fell during the farm financial crisis to less than \$131 billion by the end of 1989, and rose to more than \$193 billion as of December 31, 2002, surpassing the previous record level in nominal terms. The past 3 years have continued the pattern of setting new nominal highs. By market segment, commercial banks had better volume gains in 2005 than the System in the farm real estate market, while the System fared slightly better in the non-real estate market. However, except for the unusual period of the 1980s and various market adjustments in the 1990s, the FCS has typically been the dominant real estate lender in the farm debt market. Commercial banks have always dominated non-real estate lending.

The System's share of debt secured by farm real estate increased to 38.3 percent at year-end 2005 from 36.6 percent in 2002, continuing a steady upward trend for the past 10 years. The System's share of non-real estate farm debt was 24.0 percent at year-end 2005, compared with 21.9 percent at year-end 2002. Its share in this segment during the late 1990s tended to be just less than 20 percent.

Commercial banks, with several years of steady gains, edged ahead of the System in the debt market secured by farm real estate in 2000, with a 32.7 percent share. Their share in this segment slipped back somewhat during the next 4 years before jumping to 34.6 percent at the end of 2005. Commercial banks continue to dominate the debt market secured by non-real estate with a 50.1 percent share (2005), compared with 49.3 percent 3 years ago. But this figure is down from an average of nearly 52 percent over the 1996–2000 timeframe, a period when the FCS was still recovering from its financial difficulties.



## **PART IV**

### **Performance Budget, FY 2008**

## PERFORMANCE BUDGET OVERVIEW

FCA's FY 2008 Performance Budget reflects its commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the System. The total Performance Budget (table 26) is nearly \$47.5 million and reflects a minimal (3.81 percent) increase from FY 2007.

Table 26. <b>FCA Performance Budget, FYs 2006–2008</b>			
	FY 2006 Actual <sup>1</sup>	FY 2007 Revised	FY 2008 Proposed
Policy and Regulation	\$ 8,953,102	\$ 10,904,869	\$ 11,411,231
Safety and Soundness	27,808,571	30,861,303	32,108,407
Reimbursable Activities	2,591,323	3,971,784	3,962,882
<b>TOTAL</b>	<b>\$39,352,996</b>	<b>\$45,737,956</b>	<b>\$47,482,520</b>
<sup>1</sup> Actual expenditures in FY 2006 rather than the approved budget amounts are provided for comparison purposes.			

### Policy and Regulation

The Agency's Performance Budget includes \$11.4 million for the Policy and Regulation program, a 4.6 percent increase over FY 2007. Most of the funds requested for Policy and Regulation in FY 2008 will support regulatory projects that will be published in the Unified Agenda in the fall of 2007. Generally, FCA opens about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including corporate applications, System funding requests, MRI programs, and other prior approvals.

### Safety and Soundness

The Performance Budget includes \$32.1 million for the Safety and Soundness program, a 4.0 percent increase over FY 2007. Most of the funds requested for Safety and Soundness in FY 2008 support examination activities. By regulation, FCA must examine each FCS institution at least once every 18 months and issue examination reports evaluating the overall condition and performance of these institutions. Other key activities will involve discussions with boards of directors and management about findings from risk assessments, internal controls, and oversight plans as well as the safety and soundness ratings assigned to individual institutions on a quarterly basis. In addition to the examinations in FY 2008, budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac. The remaining funds will be used to conduct policy studies and market research, prepare various publications and presentations, and manage the Agency's Consolidated Reporting System.

## Reimbursable Activities

The Performance Budget includes \$4.0 million for Reimbursable Activities, mostly reflecting the work we expect to perform for SBA and USDA. The reimbursable activities are summarized below and include indirect costs.

SBA—\$1,423,000 for work completed under contract agreement with SBA. The work in FY 2008 will involve conducting several safety and soundness examinations of non-bank, SBA-licensed small business lending companies making loans under SBA's 7(a) loan program and providing recommendations for SBA program enhancement.

USDA—\$1,772,000 for work completed under contract agreement with USDA. The work in FY 2008 will involve conducting examinations of non-bank USDA B&I lenders, performing operational reviews of USDA B&I state offices, and providing recommendations for B&I program enhancement. This figure includes work being performed in Armenia for the Foreign Agricultural Service, which was not included in FCA's FY 2007 proposed budget.

FCSIC—\$379,000 for administrative support services completed under contract with FCSIC. The administrative support services in FY 2008 include examination assistance, technology and information resources, human resources, communication and public affairs, and assistance on the completion of one premium audit.

NCB—\$388,000 for conducting examination and oversight of NCB. This work in FY 2008 will involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS ratings' assessments.

Table 27 summarizes the costs associated with FCA's program activities, broken down by products and services.

Table 27. <b>FY 2008 Budget (Proposed) and FTEs for Program Activities, by Products and Services</b>			
Products and Services	Program Activities	Budget Amount	FTEs
Regulation and Policy Development		\$ 10,492,548	56.2
Statutory and Regulatory Approvals		918,683	4.9
	Policy and Regulation	11,411,231	61.1
Examination		30,665,593	172.6
Economic, Financial, and Risk Analysis		941,653	5.1
FCS Data Management		501,161	2.5
	Safety and Soundness	32,108,407	180.2
	Reimbursable Activities	3,962,882	20.9
<b>TOTAL</b>		<b>\$47,482,520</b>	<b>262.2</b>

## DESIRED OUTCOMES FOR STRATEGIC GOALS

The strategic goals and desired outcomes, detailed in table 28, effectively measure FCA's ability to carry out its mission. The information that follows provides (1) the means and strategies that will be used to accomplish the outcomes, (2) the measures for each outcome with targets/performance goals that reflect the Agency's desired performance for FYs 2007–2008, and (3) a historical summary of the costs of accomplishing the desired outcomes.

Table 28. <b>Desired Outcomes for Strategic Goals</b>		
	Strategic Goal	Desired Outcome
1	Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.	A flexible regulatory environment that enables the System and Farmer Mac to fulfill their public mission
2	Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3	Implement the President's Management Agenda.	Effective and efficient management of resources
Note: Each FCA strategic goal has a parallel outcome that provides the Agency with a measurable standard for achievement.		

**Policy and Regulation**—The Policy and Regulation program was established to track the product and service costs incurred to achieve the desired outcome of a flexible regulatory environment. The products and services produced by the Agency to support the accomplishment of this program activity are Regulation and Policy Development and other Statutory and Regulatory Approvals.

**Safety and Soundness**—The Safety and Soundness program was established to track the product and service costs incurred to achieve the desired outcome of effective risk identification and timely corrective action. The products and services produced by the Agency to support the accomplishment of this program activity are Examination; Economic, Financial, and Risk Analysis; and FCS Data Management.

Since FCA does not have a program activity for goal 3, the costs associated with the desired outcome of effective and efficient management of resources are embedded in the outcomes for goals 1 and 2.



## **Flexible Regulatory Environment**

### *Means and Strategies*

For goal 1, FCA is using the following means and strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public mission.

1. Ensure that FCS lenders and Farmer Mac reach out to all potential customers.
2. Ensure that eligible customers have access to credit and related services and are treated equitably.
3. Enable the System and Farmer Mac to serve evolving customer needs by maintaining a flexible regulatory environment.
4. Emphasize regulatory activities related to YBS farmers, ranchers, and producers or harvesters of aquatic products.
5. Emphasize Farmer Mac's obligation to promote and encourage the inclusion of qualified loans for small farms and family farmers in the agricultural mortgage secondary market.
6. Encourage the System and Farmer Mac to use guaranteed loan programs and work with Federal and State agencies that offer such programs to streamline processes.
7. Encourage all FCS institutions and Farmer Mac to continue to include a discussion in annual reports of how they are meeting their public mission.
8. Enable the agricultural GSEs—that is, the System and Farmer Mac—to restructure to better serve their customers and rural America.
9. Ensure that regulatory definitions reflect the changes in agriculture, rural areas, and the financial marketplace.
10. Identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.
11. Encourage partnerships between System and non-System lenders and Farmer Mac that facilitate the flow of funds to agriculture and rural areas.
12. Publish best practices findings and establish guidelines when appropriate on FCA-regulated institutions' efficient and effective use of partnerships and other relationships with non-FCA-regulated entities to facilitate the flow of funds to agriculture and rural areas.

*Measuring the Achievements*

Table 29 summarizes the results of FCA's efforts to achieve a flexible regulatory environment for the System and Farmer Mac. We achieved our goals in FY 2006.

Table 29.				
<b>Flexible Regulatory Environment Performance Measures and Achievements</b>				
	Measure	FY 2006 (Actual)		FYs 2007–2008
		Target	Result	Target
1	Percentage of FCS institutions <sup>1</sup> with satisfactory strategic business plans <sup>2</sup> as rated by FCA examiners for providing constructive credit and related services to all potential customers, including those operating under corrective action plans acceptable to FCA.	>90%	100%	>90%
2	Farmer Mac has developed and implemented a marketing program to appropriately grow program assets with its mission and received a satisfactory rating from the Office of Secondary Market Oversight or is operating under a corrective action plan acceptable to the Office.	Yes	Yes	Yes
3	Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower rights compliance, including those operating under corrective action plans acceptable to FCA. FCA examiner reviews of consumer compliance and borrower rights are absent any material deficiencies or weaknesses in internal controls. <sup>3</sup>	≥90%	100%	≥90%
4	Percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches <sup>4</sup> to the notice and comment rule-making process.	≥40%	70%	≥40%
5	Percentage of direct-lender institutions that have satisfactory programs <sup>5</sup> as rated by FCA examiners to furnish sound and constructive credit and related services to YBS farmers, ranchers, and producers or harvesters of aquatic products or that have acceptable corrective action plans in place.	≥90%	100%	≥90%
6	The aggregate annual change in the level of System participation in Federal and State guarantee programs in relation to the aggregate annual change in total Federal and State guarantee programs to further the System's public mission.	≥ 1.00	1.00	≥ 1.00
<sup>1</sup> For purposes of performance measurement, the term "institution" does not include NCB and institutions that FCA examines on behalf of SBA and USDA on a contract basis. <sup>2</sup> Effective strategic business plans are those that received a satisfactory rating from FCA examiners and comply with 12 CFR 618.8440. <sup>3</sup> FCA examiner reviews of consumer compliance and borrower rights did not disclose any material deficiencies or weaknesses. <sup>4</sup> Supplemental approaches include advance notice of proposed rulemaking, comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town hall meetings, and other unique approaches for gathering a broad range of public input. <sup>5</sup> An effective program is one that received a satisfactory rating from FCA examiners for the most recent review of an institution's YBS program.				
Note: The six measures indicate that FCA met its goal of achieving a flexible regulatory environment in FY 2006.				

### Costs

Table 30 provides an assessment of the Agency's costs to achieve a flexible regulatory environment during the FYs 2004–2006 and projections for FY 2007 and FY 2008.

Table 30. <b>Costs to Achieve a Flexible Regulatory Environment</b>			
	<b>Products and Services</b>		<b>Program Activity</b>
Fiscal Year	Regulation and Policy Development	Statutory and Regulatory Approvals	Policy and Regulation
FY 2004 Actual Expenses	\$5,824,425	\$1,158,487	\$6,982,912
FY 2005 Actual Expenses	\$6,357,140	\$ 575,432	\$6,932,572
FY 2006 Actual Expenses	\$8,098,434	\$ 854,668	\$8,953,102
FY 2007 Revised Budget	\$10,160,556	\$ 744,313	\$10,904,869
FY 2008 Proposed Budget	\$10,492,548	\$ 918,683	\$11,411,231
Note: The costs incurred by FCA to achieve a flexible regulatory environment are trending higher because of staff seniority and the Agency's regulatory initiatives.			

## Effective Risk Identification and Timely Corrective Action

### *Means and Strategies*

For goal 2, FCA is using the following means and strategies to achieve effective risk identification and timely corrective action.

1. Maintain an effective examination and oversight program through maintenance of the Pre-commission Training Program and ongoing training programs for commissioned examiners.
2. Develop regulatory guidance and examination procedures that keep pace with evolving strategies used by the institutions constituting the two agricultural GSEs in addressing the changing needs of their customers in rural areas.
3. Evaluate whether each FCS institution and Farmer Mac have established and are maintaining proactive risk management practices commensurate with their respective risk-bearing capacities.
4. Evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles in its loan portfolio.

5. Evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institutions' operations.
6. Maintain an early warning system that allows timely identification of emerging risks and related issues in FCS institutions.
7. Undertake research and analysis of emerging risks and related issues and incorporate the findings into examination and oversight programs.

### *Measuring the Achievements*

Table 31 provides the results of FCA's examinations and oversight efforts to effectively identify risk and take timely corrective action. Again, we met our goals in FY 2006.

Table 31. <b>Effective Risk Identification and Timely Corrective Action</b> Summary of Strategic Goal Measures and Achievements				
	Measure	FY 2006 (Actual)		FYs 2007–2008
		Target	Result	Target
1	Number of institutions that FCA placed in receivership due to financial failure during the previous 12 months	0	0	0
2	Total assets of FCS institutions that FCA has determined are fundamentally sound in all material aspects	≥ 90%	100%	≥ 90%
3	Percentage of FCS institutions with composite FIRS ratings of 3, 4, or 5 with corrective action plans in place to address the underlying problems as determined by FCA examiners	100%	100%*	100%
4	Percentage of System assets in institutions with adverse assets to risk funds that are less than 100 percent	≥ 90%	100%	≥ 90%
5	Percentage of institutions complying with all regulatory capital ratio requirements (permanent capital ratio, total capital ratio, core surplus ratio, net collateral, risk-based capital), including those operating under corrective action plans acceptable to FCA	100%	100%	100%
6	Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations	100%	100%	100%
7	Percentage of FCA-regulated institutions that have satisfactory audit and review programs as determined by FCA examiners, including those with corrective action plans acceptable to FCA <sup>1</sup>	100%	100%	100%
<sup>1</sup> An effective audit and review program has a satisfactory rating from FCA examiners on the most recent internal control review.				
* No FCS institutions are currently rated 3, 4, or 5; consequently, no corrective action plans are required.				
Note: The seven measures detailed indicate that FCA met its goal of achieving effective risk identification and timely corrective action in FY 2006.				

## Costs

Table 32 provides information on the Agency's costs to achieve effective risk identification and timely corrective action in the FCS during FYs 2004–2006 and provides projections for FY 2007 and FY 2008.

Table 32. <b>Costs to Achieve Effective Risk Identification and Timely Corrective Action</b>				
	Products and Services			Program Activity
Fiscal Year	Examination	Economic, Financial, and Risk Analysis	FCS Data Management	Safety and Soundness
FY 2004 Actual Expenses	\$27,713,004	\$1,197,340	\$1,155,573	\$30,065,917
FY 2005 Actual Expenses	\$27,461,635	\$1,328,107	\$ 892,708	\$29,682,450
FY 2006 Actual Expenses	\$25,880,120	\$1,269,522	\$ 658,929	\$27,808,571
FY 2007 Budget (Revised)	\$29,442,412	\$ 825,981	\$ 592,910	\$30,861,303
FY 2008 Budget (Proposed)	\$30,665,593	\$ 941,653	\$ 501,161	\$32,108,407
Note: The costs incurred by FCA to achieve effective risk identification and timely corrective action have held steady in recent years but are projected to increase in FY 2007 and FY 2008 because of new hiring and training.				

## Effective and Efficient Management of Resources

### *Means and Strategies*

The following means and strategies will be used to implement the President's Management Agenda through the effective and efficient management of resources.

1. Strategically manage human capital.
2. Upgrade the Agency's financial management system.
3. Continue the expansion of electronic government.
4. Continue the evolution of budget and performance integration.
5. Give due consideration to competitive sourcing.

### Measuring the Achievements

Table 33 provides the measures that FCA uses to ascertain if the Agency has managed its resources effectively and efficiently. The results for FY 2006 were all satisfactory.

Table 33. <b>Effective and Efficient Management of Resources</b> Performance Measures and Achievements				
	Measure	FY 2006 (Actual)		FYs 2007–2008
		Target	Result	Target
1	Structure of Agency is assessed at least once every 5 years to determine whether changes are needed to better meet mission goals.	Yes	Yes	Yes
2	Audit opinion on the Agency's annual financial statements as reported by the Agency's external auditors.	Unqualified	Unqualified	Unqualified
3	Number of material internal control weaknesses reported by the Agency's external auditors.	0	0	0
4	Percentage of the Agency's Web pages and electronic devices that are section 508 accessibility compliant.	≥ 95 %	97.9%	≥ 95 %
5	FCA information and technology services are available on a continuous 24-hour basis to provide appropriate users access to Agency information, communications, and data collection services.	≥ 97 %	99.5%	≥ 97 %
Note: The results for the five measures indicate that FCA met its goal of managing resources effectively and efficiently in FY 2006.				

## PERFORMANCE MEASUREMENT AND REPORTING

Our performance measurement system evaluates the Agency's progress in achieving the goals of FCA's Strategic Plan for FYs 2004–2009. In addition to the Agency-level measures that are listed in this document, performance measures also exist for each FCA office. Many of the office-level measures are directly linked to the Agency-level measures. The Agency provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As demonstrated in this document, the Agency-level measures link to FCA's strategic goals.

The Chief Executive Officer, with assistance from designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The Chief Executive Officer reports on the Agency's progress and results relative to the Agency-level measures on a quarterly basis throughout each fiscal year as well as at the end of each fiscal year. The quarterly performance reports are provided to the FCA Board only, while the year-end performance report is incorporated in the *FCA Performance and Accountability Report*, which is submitted to the President and Congress.